

EXHIBIT A

Analysis of Financial Outcomes of Municipally Owned Competitive Communications Systems

ARKANSAS

Paragould, Arkansas' Paragould City Cable (PCC) went into service in 1991. PCC's build-out was financed by \$3.2 million in bonds that were leveraged against city property. Incumbent Paragould Cablevision ("Cablevision") served 94 percent of the market. Although the City initially granted itself a franchise that was more favorable than the one issued to Cablevision, PCC suffered heavy financial losses and operating difficulties due to its failure to payback its original investment.¹ The City then threatened to raise property taxes if more residents did not subscribe to the municipal system. After twice hiking property taxes, the City ultimately bought out Cablevision and then imposed tax increases on its residents, allocating approximately 10 percent of its tax rate to pay for the more than \$1 million shortfall in cable television revenues. The City's financial situation deteriorated to the point that it threatened subscribers to the municipal cable system who were delinquent in payment of their cable bills with disconnection of their electric power and water service as well.² Like many other municipal networks, tax subsidies helped cover costs; however, despite tax subsidies, "PCC has not reached payback of its investment...and will never pay back Paragould City Light and Water at its current performance level."³

ALABAMA

Scottsboro, Alabama, in January 1998, reportedly dissatisfied with the incumbent cable company, Falcon Cable, decided to build its own system for \$7 million.⁴ According to a Beacon Hill Institute Study, the City went into the cable business to provide lower rates to its community; however, the City experienced vigorous price competition from the privately owned system.⁵ As a result of that price competition, the City sought a court order to prevent a private sector provider from *lowering* its rates.⁶

CALIFORNIA

CALNET, a state-owned telecommunications system intended to connect state agencies while saving money, failed to achieve those savings and, in fact, lost so much money that the network

¹ See Appendix, Paragould, Arkansas Financial Statements at 2-3.

² Linda Haugsted, *Ohio Town Mulls Muni Cable as Ark. City Grouses*, MULTICHANNEL NEWS, Oct. 2, 1995, at 12; Larry Young, *Paragould Cable to Drive Taxes Higher Once Again*, ARKANSAS DEMOCRAT-GAZETTE, July 31, 1993, at 2D.

³ Thomas M. Leonard, *Government Entry Into The Telecom Business: Are the Benefits Commensurate with the Costs?*, Progress on Point 11.3, The Progress & Freedom Foundation (Feb. 2004).

⁴ David Tuerck, Jonathan Haughton, James P. Angelini, John S. Barrett, *Cashing in on Cable: Warning Flags for Local Government*, BHI Policy Study, Beacon Hill Institute at Suffolk University, October 2001, at 13-14, available at <http://www.beaconhill.org/BHISTudies/BHICablestudy103001.pdf> ("Beacon Hill Study").

⁵ *Id.*

⁶ *Id.*

was forced to privatize in 1998.⁷ The strategic plan prepared by the California Department of Information Technology, which recommended divesting the state-owned system, observed: (1) owning and operating telecommunications networks are neither core competencies nor core responsibilities of the state; (2) state-owned network infrastructures have proven costly and cannot keep pace with the rapid developments in telecommunications technology; and (3) the inability of CALNET to meet, at competitive cost, the service requirements of...state agencies.”⁸

GEORGIA

A 2002 **Georgia** poll found that 87 percent of the persons polled voted against use of public tax dollars to provide cable television and internet access services in competition with private providers.⁹

Forsyth, Georgia spent \$3 million, nearly one-third of its annual budget, to buy the incumbent cable operator's system in order to avoid having to build its own system and compete.¹⁰ In the end, citizens had no more than they had before their local government spent millions of their tax dollars -- only one cable television system.¹¹ The City of Forsyth reports a combined utility fund (water and sewer, electric and cable) in its financial statements with limited segment detail by department. The city's system, CableNet, suffered losses in both 2006 and 2007. In fiscal year 2006, charges for services amounted to \$1,116,644 while expenses were \$1,434,759, resulting in a \$318,115 loss.¹² In fiscal year 2007, CableNet's total charges for services were \$1,110,666 and expenses were \$1,558,407, resulting in a net expense of \$447,741.¹³ For 2009, the cable department is expecting losses of about \$478,000. Expenses are budgeted at \$1.6 million with revenue expected at \$1.1 million. The interim city administrator, Janice Hall, said the cable/telecommunications department would break even if it could pay off its debt; \$562,000 has been budgeted for debt service on the \$5 million the city has borrowed for its cable operation. Even with this level of subsidy, the debt is not expected to be paid off until 2015.¹⁴

Trion, Georgia built its cable system, CityNet, in 1999. In March 1997, the City hired a consultant from United Telesystems, Inc. to develop a telecommunications plan. In 1998 the City implemented the consultant's suggestions and began installing a 2,225-mile hybrid fiber/coaxial broadband network and a 17.35 mile fiber-optic ring.¹⁵ The City issued, through the Tift County Development Authority, \$7.9 million in revenue bonds to construct and equip the

⁷ David P. McClure, *The Myths of Municipal WiFi Networks*, New Millennium Research Council, Feb. 2005, at 4, available at <http://www.newmillenniumresearch.org/archive/> (stating that CALNET was nearly \$20 million in debt when it was sold in 1998).

⁸ *Id.*

⁹ Schapiro Research Group, Survey of 500 Registered Georgia Voters, Sept. 23-28, 2002.

¹⁰ See www.forsythcable.com/about.php.

¹¹ Debbie Rhyne, *Forsyth, GA., Offers Dial-Up Web Access to County Residents*, THE MACON TELEGRAPH, Apr. 12, 2001.

¹² See, City of Forsyth, Georgia Audit Report For the Year Ended December 31, 2006, at 4.

¹³ *Id.*

¹⁴ Will Davis, *City Set to OK Tight Budget*, THE MONROE COUNTY REPORTER, January 9, 2009 available at <http://www.mymcr.net/articles/2009/01/13/news/doc4963ff8ca1975499064207.txt>.

¹⁵ Angie Thompson, *Consultant Releases CityNet Findings*, THE TIFTON GAZETTE, February 16, 2009, available at http://www.tiftongazette.com/local/local_story_047221441.html.

cable television system.¹⁶ A few years later, in 2002, the City's accountant reported a net loss of \$1.2 million. By 2005, rumors circulated that CityNet would be sold.¹⁷

The 2006 and 2007 Financial Statements show the long range effects of large borrowing and low revenues in the first few years of operation.¹⁸ The 2006 Financial Statements show an operating loss of over \$400,000 and a net deficit of about \$5.5 million, which the City attributed "to depreciation of fixed assets and low revenues in the first years of operation."¹⁹ At this time, the Telecommunications Fund owed other city funds about \$5.1 million²⁰ and bond holders about \$5.3 million. In 2007, the Telecommunications Bond Series 1998 was defeased into Bond Series 2006 "A" and "B"; the City issued \$8.47 million in Series "A" revenue bonds and \$2.23 million in Series "B" revenue bonds to retire the 1998 bonds and provide additional money for expansion.²¹ CityNet then had a net deficit of almost \$6.3 million which the City again attributed to depreciation and low revenues during the first years of operation.²²

In August 2008, the city sought proposals from 26 telecommunications companies to sell CityNet and later hired a consultant to analyze CityNet's operations.²³ This consultant found that the previous consultant hired by Tifton 1997, to help develop a business plan, "prepared unreasonable projections for income."²⁴ The consultant provided the City with two options: (1) start charging the city and county for the services provided to them that were never paid for; or (2) sell part, or all, of CityNet.²⁵ His preference was with selling the commercial side of CityNet with the hope of paying off some of the \$10.7 million owed to bondholders.²⁶ Beginning in 2009, the City has attempted to "get CityNet operational for sale."²⁷

In the end, CityNet's losses were so significant that the City was forced to shut CityNet down before completion and sell off the equipment on a piecemeal basis.²⁸ The City's surplus went from \$4 million to \$400,000 due in part to the failed cable venture. Even selling the plant piecemeal, the City has had problems finding buyers.²⁹

¹⁶ City of Tifton Financial Statements for Year Ended June 30, 2006, at 54.

¹⁷ Jana Cone, *City of Tifton to Sell CitNet*, The Tifton Gazette, May 29, 2008, available at http://www.tiftongazette.com/local/local_story_150211621.html.

¹⁸ See Appendix, City of Tifton Financial Statements at 4-6

¹⁹ *Id.*

²⁰ *Id.*

²¹ *Id.*

²² *Id.*

²³ Angie Thompson, *Consultant Releases CityNet Findings*, THE TIFTON GAZETTE, February 16, 2009, available at http://www.tiftongazette.com/local/local_story_047221441.html.

²⁴ *Id.*

²⁵ *Id.*

²⁶ *Id.*

²⁷ Chivaun Perez, *City Hears Formal CityNet Report*, The Tifton Gazette, February 17, 2009, available at http://www.tiftongazette.com/local/local_story_048222512.html

²⁸ *Trion Seeks Break on Cable Bill*, CHATTANOOGA TIMES FREE PRESS, Feb 13, 2003; "Trion Update," ATLANTA JOURNAL CONSTITUTION, Apr. 27, 2003, at Metro Section.

²⁹ *Trion Update*, ATLANTA JOURNAL CONSTITUTION, Apr. 27, 2003, at Metro Section; see also Report from Graham Carter, CPA to the Georgia Cable TV Association (Dec. 10, 2002).

Acworth, Georgia experienced huge cost over-runs and had to sell its system, Acworth CableNet, while still being obligated to service millions of dollars of outstanding bonds.³⁰ Acworth CableNet began service to its customers in 2001. The City issued bonds to construct the system. By 2003, CableNet was in poor financial condition and negotiated a lease-purchase agreement with UTI Broadband Holdings LLC in order to help payoff the City's bond debt. In January 2003, UTI was unable to make the first bond payment of \$1.02 million and the City had to raise property taxes approximately 7% to meet this debt payment. In 2005, Acworth sold CableNet to Klip Interactive for \$4.95 million even though it had spent more than \$13.5 million to build and maintain the system.³¹

Marietta, Georgia entered the broadband business in 1996 and spent about \$35 million in development over eight years to develop its FiberNet system. Marietta, however, reported substantial operating losses of \$6 million and consequently experienced difficulties upgrading and maintaining the network. Marietta was forced to sell FiberNet to American Fiber Systems for \$12.2 million in 2004, incurring a loss of \$24 million.³²

ILLINOIS

Batavia, Geneva and St. Charles, Illinois, in 2004 referenda, twice soundly rejected a proposed municipal broadband network that would have provided cable television, telephone and internet access services at a cost of \$62 million.³³ Despite the endorsement of the mayors of the three communities, approximately sixty percent of the voters rejected the cities' planned network as too expensive and risky.

IOWA

Harlan, Iowa constituents questioned whether they were "hoodwinked" into financing their municipal system, Har-Tel.³⁴ Har-Tel's expenses were hidden in other utilities and the true cost of the system was actually twice that which was originally projected.³⁵ As a result the city was unable to afford needed water facilities or replacement of electric-transformers.³⁶ Notwithstanding deferred loans and interest payments, the true cost of this system turned out to

³⁰ *Atlanta Suburb Readies High-Speed Platform*, MULTICHANNEL NEWS, Sept. 11, 2000; *Acworth Boast City-Run Cable*, ATLANTA JOURNAL CONSTITUTION, Feb. 7, 2001; *Acworth Selling Its Cable TV System*, ATLANTA JOURNAL CONSTITUTION, July 4, 2002.

³¹ *Acworth to Sell Cable System to Small Madison Company*, SatelliteGuys.US, available at <http://www.satelliteguys.us/live-industry-news-feeds/46734-acworth-sell-cable-system-small-madison-company.html>.

³² See, Case Study: Marietta FiberNet, available at <http://votenofeb24.com/tag/fiber-networks/>; *Marietta Faces Cut in Subsidy from BLW*, ATLANTA JOURNAL CONSTITUTION, June 5, 1997; *Pull the Plug On Utility's Antics*, ATLANTA JOURNAL CONSTITUTION, May 31, 2002; *Audit to Determine Marietta Utility's Worth*, ATLANTA JOURNAL CONSTITUTION, Feb. 6 2003; *Marietta Selling City-Owned Internet Company at \$24 Million Loss*, USA TODAY, July 29, 2004; *The Myths of Municipal WiFi Networks* at 4.

³³ <http://www.geneva.il.us/bb/faq.htm>.

³⁴ Paul Gala, *Was Harlan 'Hoodwinked'?*, DAILY GAZETTE, Feb. 5, 1999, at A10.

³⁵ *Id.*

³⁶ *Id.*

be twice that which was originally projected.³⁷ As a result, the City was unable to afford needed water facilities or the replacement of storm-damaged electric transformers.³⁸

Cedar Falls, Iowa's Cedar Falls Utilities (CFU) provides electricity, natural gas, water, high speed Internet and cable television services to the community. However, CFU sustained large negative cash outflows and operates its cable system below sustainable breakeven penetrations.³⁹ CFU was approved by voters in 1994. By 1996 CFU offered cable services and in 1997, Internet service was added. A review of CFU's financial statements shows an illusory healthy status due only to massive financial assistance from the City over the years. The City issued general obligation bonds in 1998, 1999 and 2002 and at the end of FY 2008, \$3.3 million was still owed.⁴⁰ In 2005, the Municipal Electric Utility loaned the CFU almost \$2.8 million.⁴¹ In 2008, almost \$1.9 million was still owed on this loan.⁴²

Iowa Communications Network has required massive subsidies just to stay in business, according to a 2005 report.⁴³ ICN is "a state agency that administers Iowa's statewide fiber optic telecommunications network" which is governed by the Iowa Telecommunications and Technology Commission (ITTC).⁴⁴ A review of its financial statements shows that ICN consistently has an operating loss and has suffered decreased revenues over the years. ICN addresses the question "*Why does the ICN look like it loses money?*" in its financial statements and answers the question with: "the state made a commitment to fund the capital investment in the Network through certificates of participation. That investment is not completely recovered through the ICN's rates. As the value of the Network is depreciated, the ICN does not fully recover the depreciation associated with the State's investment."⁴⁵ Although ICN attempts to attribute the cause of the loss primarily to the depreciation of the network, the real problem is decreased sales, especially in video services, over the years. From FY 2006 to FY 2007, video services suffered a fifteen (15%) percent decrease in sales and then a sixteen (16%) percent decrease between FY 2007 and FY 2008. Cash provided by operating activities has also decreased over these years, ending with negative cash flow in FY 2008.⁴⁶

KENTUCKY

Glasgow, Kentucky's Glasgow Electric Plant Board (EPB) established a cable system in 1988 and offered high-speed data and local telephone service by 1997. At that time, nine years since its inception, EPB had not paid back its original investment. Despite nearly two decades of operation and the benefit of multiple rounds of tax-exempt revenue bonds it has still failed to pay

³⁷ *Id.*

³⁸ *Id.*

³⁹ Ronald J. Rizzuto and Michael O. Wirth, *Costs, Benefits, and Long-Term Sustainability of Municipal Cable Television Overbuilds* at 11 (1998).

⁴⁰ See CFU, Municipal Communications Utility Statement for Year 2008, 2007, at 4.

⁴¹ *Id.*

⁴² *Id.*

⁴³ See *supra*, note 9, at 4.

⁴⁴ See Quick Facts, Iowa Communications Network, available at <http://www.icn.state.ia.us/quickfacts/index.html>.

⁴⁵ See Iowa Communications Network Independent Auditor's Report, June 30, 2006, at 7.

⁴⁶ See Appendix, Iowa Communications Network Financial Statements.

back its initial investment.⁴⁷ EPB had a cumulative cash outflow of about \$2.1 million and had a cash flow gap of about \$230,000 per year.⁴⁸ In 1998, Ronald J. Rizzuto and Michael O. Wirth conducted a study⁴⁹ in which they concluded that “some combination of increased rates, subscribership and property taxes was necessary for EPB to become self-sustaining.”⁵⁰ EPB could have, in the alternative, used subsidies but this was estimated to cost about \$716 per residential household.⁵¹ Additionally, Glasgow was found by the Tennessee Valley Authority to have improperly booked hundreds of thousands of dollars in cable system expenses to its electric utility division -- not once, but twice -- thereby understating the losses of its municipal broadband system and passing the burden of those losses on to captive electric customers, many of whom did not even subscribe to the municipal cable system.⁵²

MASSACHUSETTS

Braintree, Massachusetts' municipal utility, the Braintree Electric Light Department (BELD), entered the cable television business in 2000.⁵³ The initial build-out was funded by a \$3.5 million dollar bond offering. One year later, the municipal utility requested additional capital to complete their build-out. Since that launch, BELD has increased electric and cable rates. In 2001, an expert study, based on publicly available financial reports, concluded that the cable operation was subsidized by the electric division of Braintree, including a transfer of \$2.2 million from the light division to the broadband division.⁵⁴ Furthermore, there were “no financial projections for Braintree that would justify them getting into the cable business.”⁵⁵ In 2003, the Braintree Finance Committee recommended to the Board of Selectmen that they “conduct an appraisal for the purpose of selling the Braintree Electric Light Department and all of its assets.” This motion was approved but no sale had occurred as of February 2005.⁵⁶

MICHIGAN

Negaunee, Michigan's municipal cable system has failed to pay back its original investment, has sustained large negative cash outflows, has been unable to upgrade facilities, and is operating below sustainable breakeven penetrations, according to expert studies based on City-provided information. Today, the system is only 450 MHz, has added only a few channels since its inception, and offers no high-speed Internet access. While it has sustained operations, it has not

⁴⁷ Ronald J. Rizzuto and Michael O. Wirth, *Costs, Benefits, and Long-Term Sustainability of Municipal Cable Television Overbuilds* at 8-9(1998); Ronald Rizzuto, *Municipal Telecommunication Overbuilds: The Track Record and New Incarnations*, Great Lakes Cable Expo at 5 (Feb. 2002) (hereinafter “Rizzuto Studies”).

⁴⁸ Leonard, *supra* note 3, at 8.

⁴⁹ See Ronald J. Rizzuto and Michael O. Wirth, *Costs, Benefits, and Long-Term Sustainability of Municipal Cable Television Overbuilds* at 8-9(1998).

⁵⁰ Leonard, *supra* note 3, at 8.

⁵¹ *Id.*

⁵² Len Grzanka, *Utility Diversification: Munis Find Cable TV A Costly Business*, PUBLIC UTILITIES FORTNIGHTLY, Sept. 15, 1998, at 34.

⁵³ <http://beld.com/AboutBeld/History.asp?subsection=1990s#timeline>.

⁵⁴ *Cable, Internet Called Risky for Towns: Report Warns of 'Rough and Tumble' Business*, PATRIOT LEDGER, Oct. 30, 2001.

⁵⁵ *Id.*

⁵⁶ *Id.*

been able to implement changes in technology.⁵⁷ Subscribers have not been paying their bills, “creat[ing] significant administrative burdens both for the office and maintenance staff”⁵⁸ and causing the City to consider implementing a \$30 fee for placing utility shutoff notices on residents.⁵⁹ At the same time, the City began talking about a community-wide broadband Internet service.⁶⁰ In January 2009, the City Council voted to increase rates at a senior and low income housing unit.⁶¹ The residents of this apartment were paying \$11.97 per month while other city residents, unbeknownst to them, were paying much more-- \$29.80 per month.⁶² The City Council decided to increase the rate to \$25 to help cover system maintenance charges and administrative costs.⁶³ A review of financial statements indicates that the City-owned Cable system is in poor shape, experiencing increasing operating losses and having less cash available.⁶⁴

In addition to the troubles created by non-payment of services, the changing competitive environment has played a part in the City system’s constant struggle to be viable. The City of Negaunee wrote in its February 2009 community newsletter that the “[c]hange in the industry is occurring at a rapid pace, and to keep up with the competition, investments into new equipment and new technologies, along with an understanding of increasingly complex competitive market, technical requirements and the contracts upon which video cable services are provided is necessary.”⁶⁵ To meet these costs, the City admits it will have to increase rates generally and that “video programming the City has received at no cost for many years can now only be provided to residents for a fee.”⁶⁶ Something will need to be done soon as the City is losing customers—a high of 1,229 customers in 2003 was down to 970 customers in 2008.⁶⁷ In addition, the City was forced to use cable fund reserves in 2008 to balance its budget and the City expects to have to do the same for 2009.⁶⁸

MINNESOTA

North St. Paul, Minnesota expressed interest in starting a city telecommunications utility and hired CCG Consulting LLC (CCG) to prepare a financial business model to assess the potential revenues and costs associated with the endeavor. This city-owned utility will have to actively compete with Comcast and Qwest. The January 9, 2009 business model plans indicate “that the City will construct a fiber network throughout to reach every home and business within its

⁵⁷ Rizzuto Studies.

⁵⁸ Sam Eggleston, *Negaunee City Council Looks at Late Payment Fee*, The Mining Journal, Oct. 9, 2008, available at <http://www.miningjournal.net/page/content.detail/id/516688.html?showlayout=0>.

⁵⁹ *Id.*

⁶⁰ *Id.*

⁶¹ Johanna Boyle, *Lakeview Cable Fee May Increase*, The Mining Journal, Jan. 9, 2009, available at <http://www.miningjournal.net/page/content.detail/id/520926.html?showlayout=0>.

⁶² *Id.*

⁶³ *Id.*

⁶⁴ See Appendix, City of Negaunee, Michigan Financial Statements.

⁶⁵ *Cable Facing Competitive Pressures, Changes*, City of Negaunee Municipal News, Volume 4, Issue 2, February 2009, available at <http://www.cityofnegaunee.com/newsletters.html>.

⁶⁶ *Id.*

⁶⁷ *Id.*

⁶⁸ *Id.*

boundaries beginning 2009 with first customer launch near the end of 2009.”⁶⁹ The project is planned to be financed by \$18.445 million of general obligation bonds.⁷⁰ CCG also made several projections regarding residential and business customers, including:

Residential Customers:

1. Cable TV service penetration is assumed to be 70 percent by 2012;
2. Telephone service penetration is assumed to be 70 percent by 2013;
3. High-speed Internet and data service penetration is assumed to be 50 percent by 2016

Business Customers:

1. Telephone service penetration is assumed to reach 70 percent by 2016;
2. Cable TV service penetration is assumed to be 16 percent by 2016;
3. High-speed Internet and data service penetration is assumed to be 41 percent by 2016⁷¹

On February 24, 2009 citizens of North St. Paul voted on whether the City should build the telecommunications utility. Shortly before that day, however, *The Freedom Foundation of Minnesota* released an article entitled *North St. Paul Operates “Under the Radar” on PolarNet*.⁷² The article points out that “PolarNet” will be providing the same services as those that are already being offered and that “[n]ow more than ever, cities should focus on providing essential services, rather than risking valuable tax dollars on speculative projects.”⁷³ In fact, the \$18.5 million requested is three times the city’s annual budget and taxpayers are more likely to pay out \$35 million over the life of the bond. Additionally, the success of the project is largely contingent on “the city’s ability to convince a huge number of residents to cancel their existing services with their private provider and sign up for a government-run enterprise.”⁷⁴ If the city fails to do this, taxpayers can look to pay for the damage. This article also claimed that city officials were withholding key information from the public as “[d]ocuments show that city leaders intentionally kept PolarNet ‘under the radar’ and out of public view. There was discussion of withholding from ‘anybody, including the Council, and definitely the public,’ information about the expected rates residents will pay for PolarNet services.”⁷⁵ The emails also addressed ways to make documents harder to decipher and discussed ways to build the project without letting residents vote.⁷⁶

Despite the 2-1 “no” vote, the city manager quickly held meetings to get the project up and running. On March 3, 2009 the City Council issued a resolution directing “City staff to develop alternatives to financing PolarNet so as not to place the taxpayers at risk for the project and

⁶⁹ PDF available at http://www.ci.north-saint-paul.mn.us/index.asp?Type=B_BASIC&SEC={6CB32698-EE30-40A1-8FA5-8A19B3C45704}.

⁷⁰ *Id.*

⁷¹ *Id.* at 4.

⁷² PDF, link available at <http://kstp.com/article/stories/S798689.shtml?cat=11430>.

⁷³ *Id.*

⁷⁴ *Id.*

⁷⁵ *Id.*

⁷⁶ *Id.*

continue to deliver on the many benefits of the project and to seek legislative and grant in aid opportunities as may be deemed appropriate with the overall context of PolarNet.”⁷⁷

Windom, Minnesota is a small farming community in southwest Minnesota. In 2004, the City Council approved a \$9.5 million bond to help build a telecommunications network. As originally planned, and not unlike other municipal networks, the network was to pay for itself once sales increased.⁷⁸ However, construction costs rose and another \$1 million line of credit was added to the debt in 2005.⁷⁹ In 2007, the council added another \$2.3 million in debt in order to pay back loans from the city’s cash reserves and Electricity Account.⁸⁰ Today, total debt on Windomnet is approximately \$12 million.⁸¹

A recent study by Geller & Associates indicated that Windomnet fell short of their subscriber projections in 2007 by 16%.⁸² Additionally the report concluded that “...making interest and principal payments (will be) extremely problematic without significant increases in revenues.”⁸³ Those revenue increases will be difficult in an increasingly competitive environment; for example, currently, the fastest Windomnet internet service is 5Mbps / 1.5Mbps for \$67.95 per month.⁸⁴ Comcast and Qwest both offer considerably faster speeds for less money to North St. Paul residents. City Administrator Steve Nasby, however, said that the company may need to raise prices to reduce the large debt the project has created.⁸⁵

NORTH CAROLINA

Morganton, North Carolina’s CoMPAS Cable began offering services in 1993 and was the first publicly owned and operated cable system in North Carolina.⁸⁶ Upon implementation, the City Council raised cable rates \$2.00 higher than the incumbent operator had been charging and \$3.00 higher than the City had promised to charge when voters approved the system.⁸⁷ The City, additionally, voted to subsidize the system with revenues from the city’s electric utility, forcing even those residents who did not subscribe to pay for the system through their utility rates.⁸⁸ When asked if this situation was fair to non-subscribers, Morganton’s mayor was quoted to say: “That’s their problem.”⁸⁹

On August 6, 2007, the City Council established a Citizen’s Committee to study CoMPAS and: (1) evaluate the adequacy of services provided to the public by CoMPAS Cable; (2) evaluate the

⁷⁷ City of North St. Paul Resolution No. 09-027, Resolution Supporting PolarNet, March 3, 2009

⁷⁸ Case Study: Windomnet, available at <http://votenofeb24.com/case-study-windomnet/>.

⁷⁹ *Id.*

⁸⁰ *Id.*

⁸¹ *Id.*

⁸² Derrick Knutson, *A Tale of Two Fiber-Optic Cities, One a Success, the Other Initially Struggling*, available at <http://www.review-news.com/main.asp?SectionID=64&SubSectionID=130&ArticleID=4454>.

⁸³ *Id.*

⁸⁴ *Id.*

⁸⁵ *Id.*

⁸⁶ City of Morganton Public Information Office, *Citizen’s Committee to Report on CoMPAS Cable System*, April 3, 2008, available at www.ci.morganton.nc.us.

⁸⁷ *City-Cable-Electricity: Are You Paying for Cable Through Electric Bills? Yes.*, THE NEWS HERALD, Jan. 9, 1994

⁸⁸ *Id.*

⁸⁹ *Id.*

financial condition of CoMPAS Cable and its impact on City finances; and (3) make a report to the City Council on its findings and recommendations regarding the future.⁹⁰ The Committee recommended that the City continue with the system but implement “fix[ed] subscriber rates with a view toward realizing the production of positive net revenues, particularly taking into account anticipated periodic increases in programming fees charged by providers” and establish a Capital Reserve Fund from which to finance future capital expenditures, funded by net revenues.⁹¹ The planned rates did not occur; in January 2009, the City announced that there would be a \$3.00 increase in rates due to “carriage fees”.⁹²

Additionally, costs and rates may increase in the future as there are two proposed N.C. House and Senate bills that will “level the playing field” between private companies and cities providing services.⁹³ These bills, if passed, would not allow the City to use utility funds to subsidize its cable and broadband venture, something that the City of Morganton has relied upon in the past. The bills will also “make cities set its rates based on taxes it doesn’t even pay, such as property taxes.... [which] means the city would have to pretend it has those costs and figure them into its rates.”⁹⁴

OHIO

Lebanon, Ohio’s Lebanon Telecommunications System has offered its citizens cable services since 1999.⁹⁵ At its inception, it was hoped that 90 percent of the cable television market could be captured by offering lower prices than its main competitor Time Warner.⁹⁶ Time Warner responded by slashing its prices. Competing with private businesses has resulted in large negative cash outflows, stagnant revenue, and the City has operated below its sustainable breakeven penetration point.⁹⁷ In 2000, the city council approved a 20% electric rate hike for residents to help relieve the debt of the broadband system.⁹⁸ In 2001, Lebanon was forced to borrow \$14.8 million in mortgage revenue bonds to cover debt from the broadband department alone—this debt will actually be \$22.5, when interest is included.⁹⁹ In a thinly veiled attempt to prevent Time Warner from gaining additional customers, Lebanon threatened to enforce a law

⁹⁰ City of Morganton Public Information Office April 7, 2008 Meeting Minutes, available at www.ci.morganton.nc.us.

⁹¹ *Id.*

⁹² Steve Welker, *Morganton Cable Rates Increase*, THE NEWS HERALD, Jan. 6, 2009, available at <http://www2.morganton.com/content/2009/jan/06/morganton-cable-rates-increase/>.

⁹³ Sharon McBrayer, *Morganton Officials Oppose Broadband Bill; Cable Companies Want Fair Competition*, THE NEWS HERALD, April 15, 2009, available at <http://www2.morganton.com/content/2009/apr/15/morganton-officials-oppose-broadband-bill-cable-co/>.

⁹⁴ *Id.*

⁹⁵ Marc Kilmer, *When Government Competes with Private Enterprise: How Lebanon, Ohio Got into the Telecommunications Business*, The Buckeye Institute, June 23, 2006.

⁹⁶ Beacon Hill Study, *supra*, note 6 at 10-12.

⁹⁷ *Id.* at 11.

⁹⁸ *Id.* at 12.

⁹⁹ *Id.*

that prevented door-to-door sales calls.¹⁰⁰ In August 2006, Lebanon began discussions with Cincinnati Bell to sell the city-run cable and Internet business.¹⁰¹

Wadsworth, Ohio's system artificially subsidized its operations as it did not allocate salary costs, powering costs or distribution plant capital costs to its video system.¹⁰²

OREGON

Ashland Oregon launched its Ashland Fiber Network (AFN) in 2000, fearing that "electricity deregulation would erode the city's income from its municipal utility and the belief by some that the incumbent telephone and cable companies were not providing the levels of service that the city wanted."¹⁰³ The citizens of Ashland did not request the city-owned network; in fact, a 2000 Ashland Resident Survey found that "when asked if there are any services the City provides, but could eliminate, most mentioned the Ashland Fiber Network."¹⁰⁴ Since its inception, AFN has cost more money to operate than it has made. Lower revenue and higher-than-expected costs put the system in a precarious position as construction fell 18 months behind schedule.¹⁰⁵ The project was funded through bank loans and loans from the municipal electric utility; the initial buildout cost was estimated at \$6 million but by 2004 costs were estimated between \$8 million and \$8.5 million.¹⁰⁶ AFN used general obligation bonds backed by the full faith and credit of the City, has negatively affected other City departments and the citizens of Ashland. Even Mayor Alan DeBoer, prior to the inception of the system, recognized the detrimental impact the municipal system would have on taxpayers: "while the effects of competition was positive for Ashland cable subscribers, whichever service they use, if AFN does not succeed, all Ashland taxpayers will pay the price in the end."¹⁰⁷

AFN's history has been characterized by major losses offset by large interfund subsidies. In 2001, expenses were more than double revenues, amounting to a \$1.6 million dollar loss in the first year of operation. In response to the discouraging start, the City convened an Advisory Committee for AFN to examine why revenues were not sufficient and admitted that buildout was taking longer than anticipated.¹⁰⁸ The Committee drafted a new business plan which emphasized the need to be self-sufficient and projected the following: (1) positive net income to not occur until the ninth plan year; (2) a gain of \$1.13 million after 15 years instead of \$3.8 million in 10 years; (3) Cable TV advertising revenue of \$734,000 over 15 years; (4) no telephony revenue (\$508,000 reduction from the previous plan); and (5) internal borrowing capping out at \$8.9

¹⁰⁰ *Id.*

¹⁰¹ Marc Kilmer, *Lebanon, Ohio to Sell its Municipal Broadband Network*, Info Tech & Telecom News, September 1, 2006 available at

http://www.heartland.org/policybot/results/19579/Lebanon_Ohio_to_sell_its_municipal_broadband_network.html.

¹⁰² Rizzuto Studies at 10. F

¹⁰³ Leonard, *supra*, note 3 at 23.

¹⁰⁴ See, Mike Green, *Ashland's Flailing Network (AFN) A Lesson in Socialism*, Ashland Daily Tidings, November 8, 2005, available at <http://archive.dailytidings.com/2005/1108/110805FTRS.shtml>

¹⁰⁵ Beacon Hill Study, *supra*, note 6 at 10.

¹⁰⁶ *Id.*

¹⁰⁷ Beacon Hill Study, *supra*, note 6 at 11; see also Myles Murphy, *AFN Panel Continues Inspection of Details*, ASHLAND DAILY TIDINGS, Aug. 24, 2001.

¹⁰⁸ Leonard, *supra*, note 3 at 25.

million the ninth year.¹⁰⁹ Borrowing for the buildout resulted in increased city fees including an electricity rate increase of six (6%) percent in 2002, an electricity surcharge which increased by two-hundred (200%) percent from 2001 to 2002 and an increase in water rates by five (5%) percent.¹¹⁰ AFN explored options to refinance “its debt with lenders to decrease the amount it borrows from other city departments....[but] [e]ven with refinancing, the city would still borrow about \$5 million per year through 2011.”¹¹¹ At that point, the 2003 budgeted loan was more than \$6.6 million and it was believed that “a break-even point at which the network has enough income to offset all its previous losses won’t come until 2012.”¹¹² AFN’s financial woes continued in like fashion in 2003 and 2004, and the cost of sales and services exceeded the charges for services, resulting in a \$863,000 and a \$650,000 operating loss respectively.¹¹³

In 2005, the City convened the Ashland Fiber Network Options Committee “to analyze operational options for the Ashland Fiber Network and to provide guidance to the City Council.”¹¹⁴ This Committee planned to meet the objective within 90 days and once the objective was met, the committee would dissolve.¹¹⁵ A series of Committee memoranda outlined AFN’s troubles and presented options to make AFN viable. Lee Tuneberg, the Administrative Services & Finance Director, released a memo on July 19, 2005 addressing the Committee’s proposal to increase Cable TV rates.¹¹⁶ Tuneberg expressed the concerns that: (1) multiple significant increases in a short period have a risk of alienating customers and may be less effective than anticipated; (2) the benefits of raising rates a significant amount may be minimized by customers terminating service or not connecting at all; and (3) the increase in rates could cause competitors to take advantage of the situation by waiting to raise prices and capture customers in the meantime with lower rates. Tuneberg also mentioned that a rate increase would be the third increase in 14 months with no significant product change.¹¹⁷ Tuneberg’s second memo, from August 15, 2005, indicated interfund borrowing rose to a level where there was not enough cash to fund both the giving utility and AFN.¹¹⁸ The City Council therefore issued bonds in the amount of \$15.5 million to eliminate the need for internal borrowing, nevertheless, the bonds were backed by the full faith and credit of the City. Tuneberg also noted that at that time AFN was unable to generate enough revenue to pay both operating costs and annual debt service.¹¹⁹ And, AFN believed that a positive net income would be reached in 2007-2008 due to the implementation of recommended initiatives but the results show that the belief was unrealistic. Subsequently, the 2005-2006 Budget Committee approved a \$500,000 subsidy from the Electric Fund to help meet debt service requirements.

¹⁰⁹ *Id.* at 27

¹¹⁰ *Id.*

¹¹¹ Tony Boom, *Ashland’s Fiber Optic Network will Borrow to Save City Funds*, The Mail Tribune, May 2002, available at <http://archive.mailtribune.com/archive/2002/may/051302n1.htm>.

¹¹² *Id.*

¹¹³ City of Ashland Comprehensive Annual Financial Report For Year Ended June 30, 2004, at 25.

¹¹⁴ City of Ashland Homepage, AFN Options Committee, available at <http://www.ashland.or.us/CCBIndex.asp?CCBID=215>.

¹¹⁵ *Id.*

¹¹⁶ See the attachments to the City of Ashland AFN Options Committee August 15, 2005 Minutes, available at <http://www.ashland.or.us/CCBIndex.asp?CCBID=215>.

¹¹⁷ *Id.*

¹¹⁸ *Id.*

¹¹⁹ *Id.*

In May 2006, the City Council decided to privatize the CATV section. In June 2006 the City Council approved the transfer of \$15.5 million from the Telecommunications fund to the Debt Service Fund; “this was done to recognize the commitment to pay debt service on this issuance with general revenue of the city’s rather than rate revenue from the enterprise fund¹²⁰.” This transfer resulted in an artificial “good year” in 2007.

In fiscal year 2007-2008, AFN was able to pay \$356,000 toward its \$15.5 million debt.¹²¹ The problem, however, remains that the total debt payment for 2009 is \$1,431,378.¹²² As a result, the following departments will contribute to – subsidize -- AFN debt in 2009: Electric-\$252,300; Public Works-\$180,900; Police-\$111,896; Fire & Rescue-\$102,160; Community Development-\$44,444; Municipal Court-\$8,300.¹²³ Additionally, the City decided that the proceeds of a court settlement with Bonneville Power Administration, about \$375,000, will be used to help pay AFN debt service payment.¹²⁴

PENNSYLVANIA

Philadelphia, Pennsylvania, in 2004, announced that it would deploy the first major citywide Wi-Fi system.¹²⁵ On April 7, 2005, the City released its blueprint for the project, which estimated that the system would cost approximately \$10 million.¹²⁶ However, by 2005, Philadelphia did not have sufficient capital to complete the project and was already \$5 million in excess of its budget. Consequently, the City turned to Earthlink to create a public/private partnership to complete the buildout. Upon completion, Earthlink planned on charging customers \$20 per month for 1 Mbps—thus defeating the purpose of building a municipal system that would offer free services.¹²⁷ Earthlink, however, was forced to abandon the project in 2008 due to construction delays, financial instability, and overall lack of citizen support.¹²⁸ Before the project even got off the ground, experts predicted its failure.¹²⁹ Earthlink’s own CEO admitted that the municipal Wi-Fi system was a business model that simply didn’t work.¹³⁰

Kutztown, Pennsylvania began providing a fiber-optic network in 2002 under the name “Hometown Utilicom”.¹³¹ In the Leonard report, it is noted that Hometown Utilicom offered

¹²⁰ See Appendix, City of Ashland Comprehensive Annual Financial Report For Year Ended June 30, 2006, p. 61

¹²¹ Vickie Aldous, *City Departments Pay Price of AFN Debt: Pinching Pennies to Pitch In*, Ashland Daily Tidings, April 28, 2009, available at <http://www.dailytidings.com/apps/pbcs.dll/article?AID=/20090428/NEWS01/90428001>.

¹²² *Id.*

¹²³ *Id.*

¹²⁴ *Id.*

¹²⁵ Adam D. Thierer, *Risky Business: Philadelphia’s Plan For Providing Wi-Fi Service*, Progress on Point, The Progress and Freedom Foundation, April 2005.

¹²⁶ *Id.*

¹²⁷ Marguerite Reardon, *Philly Wi-Fi Project Passes Final Hurdle*, CNET, available at http://news.cnet.com/Philly-Wi-Fi-project-passes-final-hurdle/2100-7351_3-6068350.html.

¹²⁸ Stephen Lawson, *Earthlink to Remove Philadelphia Wi-Fi*, PC WORLD, May 13, 2008, available at http://www.pcworld.com/businesscenter/article/145835/earthlink_to_remove_philadelphia_wifi.html.

¹²⁹ See, e.g., Thierer, *supra*, note 131.

¹³⁰ Andrew Lavalley, *A Second Look At Citywide Wi-Fi*, THE WALL STREET JOURNAL, Dec. 8, 2008, available at <http://online.wsj.com/article/SB122840941903779747.html>.

¹³¹ <http://www.hometownutilicom.org/aboutus.html>.

video and data services and voice services in competition with Verizon and Service Electric Cablevision, and in many instances Hometown's rates were higher.¹³² Financially, Leonard found that the initial investment was \$4.6 million, consisting of \$2.4 million from utility reserve funds (built on the backs of captive utility ratepayers) and \$2.2 million from bond issue; additional investments of \$1.2 million (with another \$500,000 from the electric fund) brought total capital outlay to \$5.8 million.¹³³ The initial \$4.6 million was used to build the system and to connect customers while the additional \$1.2 million was used to connect new customers and help pay operational costs.¹³⁴ Leonard noted that Hometown's first year of operation ended in a \$217,540 loss, which on average, was a \$624 loss per customer.¹³⁵ Hometown anticipated operating at a loss in its second year (2004) and expected to meet its short-term goal of operating revenues covering operating expenses and its long-term goal of covering operating expenses and debt within the first seven years.¹³⁶ Leonard questioned this enthusiasm because of the intense competitive market in the area and Hometown's slow revenue and customer growth.¹³⁷

Examination of Hometown Utilicom's financial statements for the years 2006 and 2007 reveals that, even then, it still had not met its initial short-term goal of operating revenues covering operating expenses. Hometown Utilicom suffered a \$490,918 operating loss in 2006 and a \$363,619 operating loss in 2007.¹³⁸ Furthermore, in each of those years Hometown Utilicom had transfers into its fund – subsidies -- to help meet debt expenses.¹³⁹ Hometown, therefore, has not been able to meet its long-term goal of meeting operating expenses and debt payments without additional subsidies.

UTAH

UTOPIA The Utah Telecommunication Open Infrastructure Agency, was formed by fourteen counties (only eleven pledging) in Utah. In 2004, UTOPIA issued Revenue Bonds in the amount of \$85 million to finance infrastructure construction and UTOPIA's sales and use tax revenue is pledged to meet the debt service payments.¹⁴⁰ The first four years of bond payments on the \$85 million of revenue bonds will be paid from the debt reserve fund. After the fourth year and until the bonds are due in 2026, the net revenues of UTOPIA will reimburse the debt service fund for these payments. Net revenues, however, will have to pay the debt service as well. If there are insufficient net revenues to pay the debt service, the eleven pledging members are required to reimburse the UTOPIA debt service fund of any shortfall – another subsidy. The eleven pledging members were paying 100% of the pledge in the FY 2006.¹⁴¹ UTOPIA applied for

¹³² Leonard, *supra*, note 3 at 19.

¹³³ *Id.*

¹³⁴ *Id.*

¹³⁵ *Id.*

¹³⁶ *Id.* at 22

¹³⁷ *Id.* at 22-23

¹³⁸ See Appendix, Borough of Kutztown Annual Audit and Financial Report December 31, 2006, pp.19-20; 2007, pp. 19-20

¹³⁹ *Id.*

¹⁴⁰ See Utah Telecommunication Open Infrastructure Agency Financial Statements, June 30, 2006.

¹⁴¹ *Id.* at 19-20

financing from the U.S. Department of Agriculture, Rural Utility Service (RUS) Broadband Loan Program and received approval of loan on July 18, 2006, just after the end of FY 2006.¹⁴²

Unfortunately, the documents for this transaction were not completed until July 2007 causing delay and interruption in construction, the release of new inventory of marketable addresses, and the roll-out of service provider marketing plans.¹⁴³ The Board of Directors, however, authorized an additional \$30 million in revenue bonds to offset these delays to facilitate additional new construction in non-RUS eligible cities and to cover expenses until operating break even is reached.¹⁴⁴ At the end of FY 2007, UTOPIA's total debt was \$115.8 million with the majority of it being pledged by member cities.

In 2008, UTOPIA, once again, experienced financing troubles. Shortly after the RUS transaction, RUS advanced the first bond in the series in the amount of \$21 million, instead of \$31 million as provided in the loan design. Thereafter, RUS made unilateral modifications to the transaction. This, along with other actions by RUS-- delays in releasing funds to contractors, in approving contracts and in failing to approve the next bond in the series of funding-- forced the agency to begin looking for alternative funding.¹⁴⁵ UTOPIA decided to issue Series 2008 revenue bonds in the amount of \$185 million. The transaction was designed to provide funds to: (i) pay and cancel the outstanding bonds; (ii) pay and cancel the debt obligation to RUS, but not release any claims for damages as a result; (iii) pay outstanding construction contracts that had been approved by RUS but remained unfunded due to unilateral transaction modifications by RUS; (iv) provide two years of capitalized interest and LOC payments (v) provide operational and construction funds; and (vi) pay the costs of issuing the Series 2008 bonds.¹⁴⁶

Salt Lake City, Utah City officials announced that they would not back Utah's Utopia broadband project.¹⁴⁷

Provo County, Utah's iProvo was a municipal fiber service encouraged by city officials. Before its inception, it was met with heavy opposition, mostly because the \$39.5 million bond to build the project, used sales tax revenues as collateral.¹⁴⁸ By 2005, the initial service provider, HomeNet, pulled out of the operation and two other companies took over.¹⁴⁹ Still struggling, members of the iProvo management asked the City Counsel for a \$980,000 transfer from the energy reserve fund -- a subsidy -- so that it could make the first payment on the bond.¹⁵⁰ Although the revenues met the operating costs, there simply was not enough money to cover the bond payment.¹⁵¹ This request was made even after iProvo announced that it had reached its

¹⁴² *Id.* at 2

¹⁴³ See Appendix, UTOPIA Financial Statements, June 30, 2007.

¹⁴⁴ *Id.* at 3.

¹⁴⁵ *Id.* at 2.

¹⁴⁶ *Id.* at 3.

¹⁴⁷ *The Myth of Municipal WiFi Networks*, at 18.

¹⁴⁸ Justin Hill, *Provo Eyeing \$39.5M Bond for Project*, THE DAILY HERALD, December 2, 2003 available at <http://www.heraldextra.com/content/view/81844/99/>.

¹⁴⁹ Todd Hollingshead, *Two Companies to Run Provo Internet Service*, THE SALT LAKE TRIBUNE, July 19, 2005

¹⁵⁰ Tom Hollingshead, *iProvo Seeks to Tap Fund to Pay on Bond*, THE SALT LAKE TRIBUNE, February 22, 2006, available at <http://provocitizens.net/forums/viewtopic.php?t=3>.

¹⁵¹ *Id.*

5,000 subscriber goal. At this point, it was believed that positive cash flows would not exist until the year 2009.¹⁵² In 2007, iProvo reached 10,000 subscribers—one year behind schedule—and still could not make payments. The City hired outside consultants to help review operations and suggest ways to pay off debts without relying on subsidies.¹⁵³ In 2008, the city sold iProvo to Broadweave Networks for \$40.6 million.¹⁵⁴

VIRGINIA

Bristol, Virginia's OptiNet is owned by Bristol Virginia Utilities (BVU), the local electric, water and waste treatment utility. BVU decided to build OptiNet in an effort to boost economic growth in 1999. Initially, services were only provided to local schools and government, but in 2001 BVU decided to provide OptiNet to residential customers and businesses. When BVU started OptiNet, three other companies provided broadband—Sprint, Charter Communications and Comcast—and two satellite providers were present. Although there was a strong competitive presence in the market, BVU felt that the “city could not afford to wait for private industry to decide to deliver competitive broadband services to its community.”¹⁵⁵

In his study of OptiNet, Thomas Leonard observed financial performance for the years 2003 and 2004.¹⁵⁶ Leonard found that “BVU has accumulated more than \$31 million in bond debt, including \$6.75 million public improvement revenue bond, a \$15.19 million utility system revenue bond and a \$10 million bond approved in April 2003 to be structured as a line of credit.”¹⁵⁷ Furthermore, he noted that the operating expenses exceeded operating revenues for both years while subscribership seemed to increase minimally during that time period.¹⁵⁸ Leonard also commented on how BVU has been able to operate OptiNet despite its losses—through grants and subsidies from both government and taxpayers.¹⁵⁹

The initial inspection of OptiNet's financial statements appears encouraging; cash flows from operations for the years 2006, 2007 and 2008 are all positive.¹⁶⁰ In each of these years, however, OptiNet had to spend almost twice as much cash for capital investment than the operation generated; the question then remains, where did the cash come from? Upon closer inspection, BVU benefited from inherent advantages associated with being a city-owned system—low interest rates on bonds and subsidies. Without such advantages, OptiNet's situation might be quite different.

In 2006, net assets of the OptiNet fund increased by almost \$5.3 million, but the increase is deceiving. The increase in net assets, however, is due to the receipt of grant funding from the Virginia Tobacco and Community Revitalization Commission and the U.S. Department of

¹⁵² *Id.*

¹⁵³ Donald W. Meyers, *iProvo Consults Outside Help*, THE SALT LAKE TRIBUNE, December 8, 2007.

¹⁵⁴ See, *iProvo Sold to Broadweave for \$40 Million*, May 7, 2008, available at <http://www.dslreports.com/shownews/iProvo-Sold-To-Broadweave-For-40-Million-94208>.

¹⁵⁵ *Id.* at 12.

¹⁵⁶ *Id.*

¹⁵⁷ *Id.*

¹⁵⁸ *Id.* at 17-18.

¹⁵⁹ *Id.*

¹⁶⁰ See Chart in Appendix.

Commerce in the amount of \$7,264,000.¹⁶¹ Despite this grant funding, the City of Bristol noted in its 2006 CAFR that “[t]he OptiNet fund has an accumulated deficit in net assets of (\$3,359,143). It is anticipated that this deficit will be reduced by income expected from future operations as the fund continues to move out of its growth stage.”¹⁶² Although in 2007 net assets did increase by \$23,949,142, this is because:

[e]ffective July 1, 2006, the Code of Virginia was amended to exempt from the cross-subsidization prohibitions Internet access, broadband, information and data transmission services provided by any locality providing telecommunications services on March 1, 2002. As a result, BVU restructured its internal debt and accrued interest of approximately \$23 million owed by OptiNet to the Electric Fund. The result of this restructuring was a reduction in the net assets of the Electric Fund, and an increase in the net assets of the OptiNet fund.¹⁶³

Without such amendment, OptiNet would have suffered a deficit in net assets around \$2.8 million in 2007. Other initiatives undertaken by BVU at this time called for more borrowing on top of BVU’s already existing \$50 million revenue bond debt (of this, \$41 million is attributed to OptiNet)¹⁶⁴ in order to expand the system to neighboring areas¹⁶⁵ and establish a new consulting division.¹⁶⁶

In 2008, the OptiNet fund increased its net assets by 29%. This increase was attributed mainly to the receipt of grant revenues. Of the approximately \$6 million net increase, more than \$5.6 million was from grants and the remaining \$423,396 was from operations.¹⁶⁷ In addition to these grant revenues, the City issued Revenue Bonds of \$4,500,000 “to provide for the construction of, and capital improvements to, the City’s fiber optic cable and internet, telephone and cable television infrastructure.”¹⁶⁸ These Bonds are “a limited obligation of the City payable from certain net revenues to be derived from the ownership or operation of the City’s Utility Systems”¹⁶⁹ not just from OptiNet’s revenues. The 2008 Financial Statements also indicates that “the city has pledged future customer revenues, the net of specified operating expenses, to repay \$50,800,000 in revenue bonds issued July 2003 and \$535,000 in revenue bonds issued in December 2007. Proceeds from the bonds provided financing for the construction of a new Electric System sub-station and the continued development of the City’s Telecommunication

¹⁶¹ See Appendix, City of Bristol, Virginia Comprehensive Annual Financial Report Year Ended June 30, 2006, at 14, 62.

¹⁶² *Id.* at 55.

¹⁶³ See City of Bristol, Virginia Financial Statements With Independent Auditor’s Report Year Ended June 30, 2007, at 9.

¹⁶⁴ *Id.*

¹⁶⁵ *More Debt and More Promises at Bristol Virginia Utilities*, Bristol Herald Courier, Aug. 29, 2007, available at http://www.sullivan-county.com/id3/bvu_fiasco_2007.htm.

¹⁶⁶ *A New Business at Bristol Virginia Utilities?*, Kingsport Times-News, August 17, 2007, available at http://www.sullivan-county.com/id3/bvu_fiasco_2007.htm.

¹⁶⁷ See City of Bristol, Virginia Financial Statements With Independent Auditor’s Report Year Ended June 30, 2008, at 9-10.

¹⁶⁸ *Id.* at 58

¹⁶⁹ *Id.*

network. The bonds are payable solely from BVU's net revenues and are payable through 2030."¹⁷⁰

¹⁷⁰ *Id.* at 63

APPENDIX

ARKANSAS:

**PARAGOULD LIGHT AND WATER COMMISSION
D/B/A PARAGOULD, LIGHT, WATER AND CABLE
STATEMENT OF NET ASSETS
YEAR ENDED DECEMBER 31, 2008; 2007; 2006**

	2008 ¹		2007		2006	
	Cable	Tele-com.	Cable	Tele-com.	Cable	Tele-com.
Assets						
Current Assets:						
Cash and cash equivalents	\$(300,804)	\$2,840,644				
Accounts receivable, net of allowance	569,815	243,681				
Material and supply inventories	198,205	963				
Prepaid expenses	56,801	16,826				
Total current assets	524,017	3,102,114				
Noncurrent assets						
Restricted and board designated assets	340,274	-				
Capital assets						
Capital assets	12,930,409	707,383				
Accumulated depreciation	(7,741,790)	(634,385)				
Net capital assets	5,188,619	72,998				
Intangible assets						
Deferred bond costs, net	28,810	7,500				
Goodwill	1,126,952	-				
Total intangible assets	1,155,132	7,500				
Total noncurrent assets	6,684,025	80,498				
Total assets	\$7,208,042	\$3,182,612				
Liabilities and Net Assets						
Current liabilities						
Current maturities of long-term debt	\$185,000	\$-				
Accounts payable	269,540	17,182				
Accrued interest	26,685	-				
Customer deposits	-	-				
Compensated absences	-	-				
Other current liabilities	64,165	21,261				
Total current liabilities	545,390	38,443				
Noncurrent liabilities						
Long-term debt, less current maturities	1,265,000	-				
Deferred loss on defeasance of debt	-	-				
Customer deposits	-	-				
Compensated absences	79,970	58,502				
Total noncurrent liabilities	1,344,970	58,502				
Total liabilities	1,890,360	96,945				
Interfund transfers	6,164,884	(2,105,819)				
Net assets						
Invested in capital assets, net of related debt	3,738,619	72,998				
Restricted	340,274	-				
Unrestricted	(4,926,095)	5,118,488				
Total net assets	(847,202)	5,191,486				
Total liabilities and net assets	\$7,208,042	\$3,182,612				

¹ pp.31-33

**PARAGOULD LIGHT AND WATER COMMISSION
D/B/A PARAGOULD, LIGHT, WATER AND CABLE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2008; 2007; 2006**

	2008 ²		2007		2006	
	Cable	Tele-com.	Cable	Tele-com.	Cable	Tele-com.
Operating Revenues						
Utility charges	\$5,402,167	\$2,013,326				
Wholesale power	-	-				
Other operating income	-	3,522				
Total operating revenues	5,402,167	2,016,848				
Operating expenses						
Production and distribution	4,295,588	1,130,255				
Purchased power	-	-				
Customer accounts	143,551	55,821				
Administration and general	139,051	74,066				
Depreciation	656,166	45,588				
Total operating expenses	5,234,356	1,305,730				
Earnings from operations	167,811	711,118				
Nonoperating income (expenses)						
Interest Income	30,952	2,829				
Other nonoperating income	15,651	-				
Interest Expense	(64,631)	-				
Amortization	(4,632)	-				
Total nonoperating income (expenses)	(22,660)	-				
Capital contributions	-	-				
Change in net assets	145,151	713,947				
Net assets-beginning of year	(992,353)	4,477,539				
Net assets-end of year	\$(847,202)	\$5,191,486				

² pp.34

**CITY OF TIFTON-CITYNET
SCHEDULE OF NET ASSETS
FOR YEAR ENDED DECEMBER 31, 2008; 2007; 2006**

	2008 ¹	2007 ²	2006 ³
Current Assets:			
Cash		\$66,895	\$145,473
Accounts Receivable		932,349	827,495
Less Allowance for Uncollectable Accounts		(553,008)	(494,529)
Restricted Assets:			
Cash		<u>646,829</u>	<u>385,968</u>
Total Current Assets		<u>1,093,065</u>	<u>864,407</u>
Capital Assets:			
Land		10,000	10,000
Buildings		778,516	778,516
Less Accumulated Depreciation		(130,389)	(113,425)
Machinery and Equipment		329,254	298,611
Less Accumulated Depreciation		(203,804)	(190,583)
Distribution System		11,271,875	10,038,557
Less Accumulated Depreciation		<u>(5,908,025)</u>	<u>(5,313,846)</u>
Net Capital Assets		<u>6,147,427</u>	<u>5,507,830</u>
Other Assets			
Bond Cost		<u>257,242</u>	<u>55,325</u>
Total Assets		<u>7,497,734</u>	<u>6,427,562</u>
Current Liabilities			
Payable from Current Assets:			
Accounts Payable		191,486	120,643
Accrued Expenses		13,220	9,812
Due to Other Funds		683,721	849,186
Note Payable		28,504	282,370
Payable from Restricted Assets:			
Accrued Interest			65,511
Bonds Payable			<u>580,000</u>
Total Current Liabilities		<u>916,931</u>	<u>1,907,522</u>
Long-Term Liabilities:			
Bonds Payable		\$10,609,840	\$5,338,818
Note Payable		85,510	471,391
Accrued Vacation		22,131	19,463
Advances Due Other Funds		<u>2,160,791</u>	<u>4,204,492</u>
Total Long-Term Liabilities		<u>12,878,272</u>	<u>10,034,164</u>
Total Liabilities		<u>13,795,203</u>	<u>11,941,686</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt		(3,929,598)	(1,164,749)
Unrestricted		<u>(2,367,871)</u>	<u>(4,349,375)</u>
Total Net Assets		<u>\$(6,297,469)</u>	<u>\$(5,514,124)</u>

¹

² City of Tifton Financial Statement for Year Ended June 30, 2007 pp. 106-107

³ City of Tifton Financial Statement for Year Ended June 30, 2006 pp. 107-108

CITY OF TIFTON-CITYNET
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	2008 ¹	2007 ²	2006 ³
Operating Revenues:			
Sales		\$3,123,361	\$2,812,910
Penalties and fees		28,490	29,879
Miscellaneous		<u>18,171</u>	<u>11,601</u>
Total Operating Revenues		<u>3,170,022</u>	<u>2,854,390</u>
Operating Expenses:			
Program Costs and fees		1,484,272	1,109,130
Personnel Services		653,323	558,886
Utilities		115,804	155,810
Repairs and Maintenance		121,914	73,863
Supplies		259,700	187,085
Insurance		75,910	48,380
Gas, Oil and Grease		22,177	23,422
Professional Services		29,146	51,251
Depreciation		640,096	1,017,986
Marketing		16,499	-
Postage		1,091	706
Warehouse and Inventory Control		18,975	-
Administrative and Clerical		47,584	44,810
Miscellaneous		<u>335</u>	<u>10,249</u>
Total Operating Expenses		<u>3,486,826</u>	<u>3,281,578</u>
Operating Loss		(316,804)	(427,188)
Non-Operating Revenues (Expenses):			
Interest Income		88,094	19,894
Interest Expense		(99,763)	(20,508)
Revenue Bond Expense		<u>(454,872)</u>	<u>(275,937)</u>
Loss before Transfers			(703,739)
Transfer In			<u>122,606</u>
Change in Net Assets		(783,345)	(581,133)
Net Assets-July 1, 2007, 2006, 2005		<u>(5,514,124)</u>	(4,932,991)
Net Assets June 30, 2008, 2007, 2006		<u>\$(6,297,469)</u>	<u>\$(5,514,124)</u>

¹

² City of Tifton, Georgia Financial Statement for Year Ended June 30, 2007 p. 108

³ City of Tifton, Georgia Financial Statement for Year Ended June 30, 2006 p.109

**CITY OF TRIFTON-CITYNET
SCHEDULE OF CASH FLOWS**

	2008 ¹	2007 ²	2006 ³
Cash flows from Operating Activities:			
Cash Receipts from Customers		\$3,123,647	\$2,821,685
Cash Payments for Personnel Services		(647,247)	(557,577)
Cash Payments for Other Operating Expenses		(2,056,005)	(1,655,128)
Cash Payments for Interfund Services		(66,559)	(44,810)
Cash Payments from Other Funds-Net		<u>(165,465)</u>	<u>223,789</u>
Net Cash Provided by Operating Activities		<u>188,371</u>	<u>787,959</u>
Cash Flows from Noncapital Financing Activities		<u>0</u>	<u>0</u>
Cash Flows from Capital and Related Financing Activities:			
Purchases of Capital Assets		(1,278,197)	(196,482)
Transfers In			122,606
Payment on Advances from Other Funds		(2,043,701)	
Principal Paid on Revenue Bonds			(540,000)
Retirement of Revenue Bonds		(5,994,629)	
Interest Paid on Revenue Bonds		(494,120)	(273,926)
Issuance of Revenue Bonds		10,723,599	
Bond Issuance Cost		(267,624)	
Proceeds from Long-Term Debt			142,517
Principal Paid on Long-Term Debt		(639,747)	(253,867)
Interest Paid on Long-Term Debt		<u>(99,763)</u>	<u>(20,508)</u>
Net Cash Used by Capital and Related Financing Activities		<u>(94,182)</u>	<u>(1,019,660)</u>
Cash Flows from Investing Activities:			
Interest Received		<u>88,094</u>	<u>19,894</u>
Net Increase (Decrease) In Cash and Restricted Cash		188,283	(211,807)
Cash and Restricted Cash-July 1, 2007, 2006, 2005		<u>531,441</u>	<u>743,248</u>
Cash and Restricted Cash June 30, 2008, 2007, 2006		<u>\$713,724</u>	<u>\$531,441</u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:			
Operating Loss		\$(316,804)	\$(427,188)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:			
Depreciation		640,096	1,017,986
Changes in Assets and Liabilities:			
Receivables, Net		(46,375)	(32,705)
Accounts Payable		70,843	4,768
Accrued Expenses		6,076	1,309
Due to Other Funds		<u>(165,465)</u>	<u>223,789</u>
Net Cash Provided by Operating Activities		<u>\$188,371</u>	<u>\$787,959</u>

¹

² City of Tifton, Georgia Financial Statements for Year Ended June 30, 2007, p. 109

³ City of Tifton, Georgia Financial Statements for Year Ended June 30, 2006, p. 110

IOWA:

CEDAR FALLS UTILITIES-MUNICIPAL COMMUNICATIONS UTILITY
STATEMENT OF NET ASSETS
FOR YEAR ENDED 2008, 2007, 2006

	2008 ¹	2007 ²	2006 ³
Current Assets:			
Cash and short-term investments	\$2,400,306	\$1,444,601	\$541,949
Restricted- cash	286,598	188,312	71,017
Investments-restricted	903,000	903,000	
Receivables:			
Customer accounts, less allowance for doubtful accounts of \$20,100 in 2008; \$23,458 in 2007; and \$30,100 in 2006,	1,282,691		
Interest	19,621	1,158,099	1,152,894
Government Grants-FEMA	87,163	40,174	38,607
Other	126,024	-	-
Material and supplies	456,990	117,548	123,711
Prepayments and other	90,997	486,459	328,784
Total Current Assets	<u>5,653,390</u>	<u>4,427,961</u>	<u>2,268,761</u>
Non-current assets:			
Non-current investments:			
Restricted			903,000
Total non-current investments			<u>903,000</u>
Capital Assets:			
Capital assets, in service	17,314,589	16,906,443	15,355,151
Less accumulated depreciation	<u>9,423,856</u>	<u>9,107,410</u>	<u>7,980,114</u>
	7,890,733	7,799,033	7,375,037
Construction in progress	<u>446,402</u>	<u>127,420</u>	<u>293,776</u>
Net capital assets	<u>8,337,135</u>	<u>7,926,453</u>	<u>7,668,813</u>
Deferred costs, net of amortization	4,625	11,235	20,854
Total noncurrent assets	<u>8,341,760</u>	<u>7,937,688</u>	<u>8,592,667</u>
Total Assets	<u>\$8,341,760</u>	<u>\$12,365,649</u>	<u>\$10,861,428</u>
Current Liabilities:			
Accounts payable	\$704,065	\$548,808	\$424,911
Accrued wages and vacation	138,906	104,805	99,188
Accrued interest	45,082	52,321	59,296
Other accrued liabilities	102,488	91,686	79,457
Current installments of note payable	310,000	310,000	310,000
Current installments of long-term debt	<u>690,000</u>	<u>670,000</u>	<u>635,000</u>
Total current liabilities	<u>1,990,541</u>	<u>1,777,620</u>	<u>1,607,852</u>
Non-current liabilities:			
Customer advances for construction	132,720	157,707	137,939
Other noncurrent liabilities	131,640	98,664	46,144
Long-term note payable, less current installments	1,543,090	1,853,090	4,005,165
Long-term debt, less current installments	<u>2,647,112</u>	<u>3,335,894</u>	<u>2,163,090</u>
Total noncurrent liabilities	<u>4,190,202</u>	<u>5,188,984</u>	<u>6,352,338</u>
Total Liabilities	<u>6,445,103</u>	<u>7,222,975</u>	<u>7,960,190</u>
Net Assets:			
Invested in capital assets, net of related debt	3,146,933	1,757,469	555,558
Restricted- bond indentures	960,500	958,833	955,917
Unrestricted	<u>3,442,614</u>	<u>2,426,372</u>	<u>1,389,763</u>
Total net assets	<u>7,550,047</u>	<u>5,142,674</u>	<u>2,901,238</u>
Total liabilities and net assets	<u>\$13,995,150</u>	<u>\$12,365,649</u>	<u>10,861,428</u>

¹ See Cedar Falls Utilities Financial Statements For the Years Ended December 31, 2008 and 2007, Municipal Communications Utility Statement pp. 5-6

² See Cedar Falls Utilities Financial Statements For the Years Ended December 31, 2008 and 2007, Municipal Communications Utility Statement pp. 5-6

³ See Cedar Falls Utilities Financial Statements For the Years Ended December 31, 2006 and 2005, Municipal Communications Utility Statement pp. 5-6

**CEDAR FALLS UTILITIES-MUNICIPAL COMMUNICATIONS UTILITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR YEAR ENDED 2008, 2007, 2006**

	2008 ¹	2007 ²	2006 ³
Operating Revenues:			
Cable system revenues	\$6,115,836	\$5,301,911	\$4,511,519
Local private line revenue	146,345	166,567	146,006
Data services revenue	4,299,833	4,036,918	3,742,601
Network access revenue	232,985	<u>216,553</u>	<u>207,265</u>
Other Operating Income	<u>200,282</u>		
Total operating revenues	<u>10,995,281</u>	<u>9,721,949</u>	<u>8,607,391</u>
Operating Expenses:			
Plant specific and programming	4,330,697	3,844,619	3,321,033
Depreciation	1,400,177	1,386,185	1,270,347
Plant nonspecific	819,865	734,773	669,688
Customer operations	550,399	500,948	294,546
Sales	329,552	232,717	482,194
Corporate operations	<u>1,186,674</u>	<u>830,045</u>	<u>829,122</u>
Total operating expenses	<u>8,617,364</u>	<u>7,529,287</u>	<u>6,866,930</u>
Operating income (loss)	<u>2,377,917</u>	<u>2,192,662</u>	<u>1,740,461</u>
Nonoperating revenues (expenses):			
Interest income	94,244	122,949	83,318
Miscellaneous revenue (expense), net	181,644	211,337	172,201
Interest expense on long-term debt	(197,159)	(225,426)	(252,385)
AFUDC	15,349	14,139	16,574
Interest expense on affiliated note payable	<u>(64,622)</u>	<u>(74,225)</u>	<u>(83,835)</u>
Total nonoperating revenues (expenses)	<u>29,456</u>	<u>48,774</u>	<u>(64,127)</u>
Change in net assets	2,407,373	2,241,436	1,676,334
Net assets (deficit), beginning of year	<u>5,142,674</u>	<u>2,901,238</u>	<u>1,224,904</u>
Net assets end of year	<u>\$7,550,047</u>	<u>\$5,142,674</u>	<u>\$2,901,238</u>

CEDAR FALLS UTILITIES-MUNICIPAL COMMUNICATIONS UTILITY

¹ See Cedar Falls Utilities Financial Statements For the Years Ended December 31, 2008 and 2007, Municipal Communications Utility Statement p. 7

² See Cedar Falls Utilities Financial Statements For the Years Ended December 31, 2008 and 2007, Municipal Communications Utility Statement p. 7

³ See Cedar Falls Utilities Financial Statements For the Years Ended December 31, 2006 and 2005, Municipal Communications Utility Statement p. 7

**STATEMENT OF CASH FLOWS
FOR YEAR ENDED 2008, 2007, 2006**

	2008 ¹	2007 ²	2006 ³
Cash flows from operating activities:			
Cash received from customers	\$10,934,960	\$9,848,816	\$8,575,075
Cash paid to suppliers	(5,948,798)	(5,361,546)	(4,816,132)
Cash paid to employees	(1,011,534)	(834,121)	(804,692)
Net cash provided by operating activities	<u>3,974,628</u>	<u>3,653,149</u>	<u>2,954,251</u>
Cash flows from noncapital financing activities:			
Payments on advance from affiliated utility	(310,000)	(310,000)	
Interest paid Note Payable	(69,552)	(79,070)	
Net cash used in noncapital financing activities	<u>(379,552)</u>	<u>(389,070)</u>	
Cash flows from capital and related financing activities:			
Principal payments on Note Payable	-	-	(310,000)
Proceeds from issuance of long-term debt	-	-	(610,000)
Principal payments on long-term debt	(670,000)	(635,000)	
Interest Payments on long-term debt	(191,640)	(217,208)	
Proceeds from customer advances for construction	-	91,000	107,000
Refunds of customer advances for construction	(24,987)	(40,293)	
Acquisition, construction and removal costs of capital assets	(1,825,245)	(1,709,416)	(1,732,821)
Proceeds from sale of capital assets	490	11,021	1,378
Reimbursement of utility construction costs	55,500	134,382	152,017
Interest paid Note Payable			(88,679)
Interest paid on LTD			(240,662)
Net cash used in capital and related financing activities	<u>(2,655,882)</u>	<u>(2,365,514)</u>	<u>(2,721,767)</u>
Cash flows from investing activities:			
Proceeds from maturities of investment securities	1,188,000	903,000	903,000
Purchase of investment securities	(1,188,000)	(903,000)	(903,000)
Interest received	114,797	121,382	72,203
Net cash provided by investing activities	<u>114,797</u>	<u>121,382</u>	<u>72,203</u>
Net increase in cash and cash equivalents	1,053,991	1,019,947	304,687
Cash and cash equivalents, beginning of year	<u>1,632,913</u>	<u>612,966</u>	<u>308,279</u>
Cash and cash equivalents, end of year	<u>\$2,686,904</u>	<u>\$1,632,913</u>	<u>\$612,966</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$2,377,917	\$2,192,662	\$1,740,461
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation of capital assets	1,400,177	1,386,185	1,270,347
Other income (expense), net	155,389	114,725	
Amortization of advance lease payments			-
(Increase) decrease in accounts receivable	(133,068)	958	(142,745)
(Increase) decrease in intergovernmental grants	(87,163)	-	
(Increase) decrease in material and supplies	29,469	(157,675)	(63,062)
(Increase) decrease in prepayments and other	(1,229)	(77,969)	3,892
(Increase) decrease accounts payable	155,257	123,897	34,499
(Increase) decrease in accrued wages and vacation	34,101	5,617	1,286
(Increase) decrease in other accrued liabilities	10,802	12,229	3,569
(Increase) decrease in accrued severance			1,688
(Increase) decrease in other noncurrent liabilities	<u>32,976</u>	<u>52,520</u>	
Net cash provided by operating activities	<u>\$3,974,628</u>	<u>\$3,653,149</u>	<u>\$2,849,935</u>

HARLAN MUNICIPAL UTILITIES-HAR-TEL

¹ See Cedar Falls Utilities Financial Statements For the Years Ended December 31, 2008 and 2007, Municipal Communications Utility Statement pp. 8-9

² See Cedar Falls Utilities Financial Statements For the Years Ended December 31, 2008 and 2007, Municipal Communications Utility Statement pp. 8-9

³ See Cedar Falls Utilities Financial Statements For the Years Ended December 31, 2006 and 2005, Municipal Communications Utility Statement pp. 8-9

**STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008, 2007, 2006**

	2008 ¹	2007 ²	2006 ³
ASSETS			
CURRENT ASSETS			
Designated			
Plant improvements, emergency and contingency funds:			
Cash and savings	\$123,000	\$109,343	\$103,644
Replacement funds bond requirement:			
Cash and savings	-0-	-0-	-0-
Restricted			
Consumers' deposit fund	-0-	-0-	-0-
Revenue bond retirement-savings	24,783	18,599	18,201
Capital improvement fund-savings	668,000	-0-	-0-
Unrestricted			
Cash and savings	584,984	368,259	233,436
Industrial development fund	-0-	-0-	-0-
Accounts receivable-net of allowance for doubtful accounts of \$39,500; 38,000; \$37,500	120,985	112,755	92,807
Unbilled usage	-0-	-0-	-0-
Employee loans receivable	-0-	-0-	-0-
Inventory	3,958	5,720	4,569
Prepaid expenses	8,048	8,072	8,377
TOTAL CURRENT ASSETS	<u>1,533,758</u>	<u>622,748</u>	<u>461,034</u>
CAPITAL ASSETS			
Utility plant			
Plant in service, at cost	1,246,185	1,205,944	1,146,534
Less accumulated depreciation	<u>597,630</u>	<u>543,297</u>	<u>485,258</u>
	648,555	662,647	661,276
Construction work in progress	<u>161,267</u>	-0-	-0-
Net capital assets	809,822	662,647	661,276
OTHER ASSETS			
Other A/R- CABS L.T.	-0-	-0-	-0-
Note receivable-Shelby Co. Fair	-0-	-	-
Bond discount an issuance costs	223	650	1,912
Intra-utility note receivable	-0-	-0-	-0-
Restricted investments for bonds:			
Debt Reserve	<u>123,722</u>	<u>31,723</u>	<u>31,722</u>
Total other assets	<u>123,945</u>	<u>32,373</u>	<u>33,634</u>
Total assets	<u>\$2,467,525</u>	<u>\$1,317,768</u>	<u>\$1,155,944</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$102,522	\$38,708	\$41,059
Payroll taxes payable	-0-	-0-	-0-
State sales and use taxes payable	10,244	3,252	3,150
Salaries, vacation and sick leave payable	14,462	11,151	12,224
Accrued property taxes	-0-	-0-	-0-
Bonds called not paid	-0-	-0-	-0-
Due City of Harlan for collections & fees	17,056	15,771	10,493
Other accrued liabilities	-0-	-0-	-0-
Payable from restricted assets			
Current maturities of long-term debt	128,558	65,000	65,000
Interest payable	7,976	1,084	1,602
Customers' deposits	-0-	-0-	-0-
Total current liabilities	280,818	134,966	133,528
NONCURRENT LIABILITIES			

¹ Harlan Municipal Utilities Independent Auditors' Report Basic Financial Statements and Supplementary Information Schedule of Findings and Questioned Costs, June 30, 2008, pp. 13-16

² Harlan Municipal Utilities Independent Auditors' Report Basic Financial Statements and Supplementary Information Schedule of Findings and Questioned Costs, June 30, 2007, pp. 13-16

³ Harlan Municipal Utilities Independent Auditors' Report Basic Financial Statements and Supplementary Information Schedule of Findings and Questioned Costs, June 30, 2006, pp. 13-16

Long-Term Debt, net of current maturities	858,667	68,454	132,225
Contract payable, net of current maturities	-0-	-0-	-0-
Deferred revenue-CABS	-0-	-0-	-0-
Intra-utility note payable, net of current maturities	-0-	-0-	-0-
Total noncurrent liabilities	858,667	68,454	132,225
NET ASSETS			
Invested in capital assets, net of related debt	490,597	529,193	464,051
Restricted for:			
Customer deposits	-0-	-0-	-0-
Revenue bond-debt reserve	123,722	31,723	31,722
Revenue bond retirement	24,783	18,599	18,201
Replacement funds-bond	-0-	-0-	-0-
Unrestricted	688,938	534,833	376,217
Total net assets	<u>1,328,040</u>	<u>1,114,348</u>	<u>890,191</u>
Total liabilities and net assets	<u>\$2,467,525</u>	<u>\$1,317,768</u>	<u>\$1,155,944</u>

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR YEAR ENDED JUNE 30, 2008, 2007, 2006**

	2008 ¹	2007 ²	2006 ³
OPERATING REVENUES			
Sales to consumers	\$1,223,447	\$1,139,439	\$1,029,653
Other operating revenue	27,151	19,755	10,252
Excess sales-Louisa Power	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total operating revenue	1,250,613	1,159,194	1,039,905
OPERATING EXPENSES			
Plant operation expenses			
Cost of gas, power, chemicals, programming, and line fees	504,002	453,618	413,457
Cost of excess sales	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Salaries and wages	16,082	17,254	10,571
Repairs and maintenance	31,676	18,117	20,300
Utilities	17,431	13,893	13,447
Insurance	9,892	10,380	21,194
Property taxes	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Other	<u>6,065</u>	<u>3,341</u>	<u>5,216</u>
Total plant operation expense	585,148	516,603	484,185
Distribution operation expenses			
Salaries and wages	84,042	69,969	77,937
Engineering	8,503	6,412	5,000
Repairs and maintenance	9,735	9,712	19,282
Other	<u>38,325</u>	<u>47,868</u>	<u>39,205</u>
Total distribution operation expense	140,605	133,961	141,424
Administrative and general expenses			
Salaries and wages	49,843	47,280	41,974
Office supplies	27,785	23,603	18,265
Education and travel	1,062	2,676	1,525
Professional	38,500	26,016	27,826
Other	<u>1,546</u>	<u>890</u>	<u>897</u>
Total administrative and general expenses	118,736	100,465	90,487
Consumer services			
Bad debts	5,827	819	3,981
Other	<u>1,428</u>	<u>1,065</u>	<u>800</u>
Total consumer services	7,255	1,884	4,781
Marketing and stakeholder relations			
Salaries and wages	41,371	36,799	38,380
Advertising	14,349	13,468	11,203
Other	<u>2,451</u>	<u>6,062</u>	<u>2,341</u>
Total marketing and stakeholder relations	58,171	56,329	51,924
Employee benefits			
Payroll taxes	29,022	25,993	25,667
Health insurance	26,711	23,157	23,480
Compensated absences	<u>21,087</u>	<u>21,750</u>	<u>18,175</u>
Total employee benefits	<u>76,820</u>	<u>70,900</u>	<u>67,322</u>
Total operating expenses excluding amortization and depreciation	<u>986,735</u>	<u>880,142</u>	<u>840,123</u>
Operating income (loss) before amortization and depreciation	263,878	279,052	199,782
Amortization	427	1,262	1,646
Depreciation	<u>54,333</u>	<u>58,039</u>	<u>57,974</u>
	<u>54,760</u>	<u>59,301</u>	<u>59,620</u>
Operating income (loss)	209,118	219,751	140,162
NONOPERATING REVENUES (EXPENSES)			
Capital Grants	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Contributions to City-In lieu of taxes	(528)	(495)	(415)
Gain (loss) on sale of assets	<u>-0-</u>	<u>-0-</u>	<u>(355)</u>
Interest Income	15,292	11,074	5,645
Interest expense	(10,190)	(6,173)	(7,988)

¹ Harlan Municipal Utilities Independent Auditors' Report Basic Financial Statements and Supplementary Information Schedule of Findings and Questioned Costs, June 30, 2008, pp. 17-19

² Harlan Municipal Utilities Independent Auditors' Report Basic Financial Statements and Supplementary Information Schedule of Findings and Questioned Costs, June 30, 2007, pp. 17-19

³ Harlan Municipal Utilities Independent Auditors' Report Basic Financial Statements and Supplementary Information Schedule of Findings and Questioned Costs, June 30, 2006, pp. 17-19

Industrial development contribution	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total non-operating revenues (expenses)	<u>4,574</u>	<u>4,406</u>	<u>(3,113)</u>
Change in Net Assets	213,692	224,157	137,049
Total net assets (deficit), beginning	<u>1,114,348</u>	<u>890,191</u>	<u>753,142</u>
Total net assets (deficits), ending	<u>\$1,328,040</u>	<u>\$1,114,348</u>	<u>\$890,191</u>

**HARLAN MUNICIPAL UTILITIES-HARTEL
STATEMENT OF CASH FLOWS
FOR YEAR ENDED JUNE 30, 2008, 2007, 2006**

	2008 ¹	2007 ²	2006 ³
Cash flows from operating activities:			
Cash received from customers and users	\$1,170,872	\$1,119,491	\$1,027,994
Cash received from other revenues	71,511	19,755	10,252
Cash paid to suppliers	(577,124)	(561,158)	(533,279)
Cash paid for personal services	(123,309)	(123,749)	(107,945)
Cash paid to employees	<u>(209,114)</u>	<u>(194,125)</u>	<u>(187,154)</u>
Net cash provided by operating activities	332,836	260,214	209,868
Cash flows from noncapital financing activities:			
Contributions to City- in lieu of taxes	<u>(528)</u>	<u>(495)</u>	<u>(415)</u>
Net cash provided (used) by noncapital financing activities	(528)	(495)	(415)
Cash flows from capital and related financing activities:			
Loan proceeds	920,000	-0-	-0-
Gain (loss) on sales of assets	-0-	-0-	(355)
Acquisition of capital assets	(201,508)	(59,410)	(2,710)
Repayments on intra-utility notes	-0-	-0-	-0-
Principal payments on long-term borrowings	(66,229)	(63,771)	(60,000)
Interest paid on notes	(3,298)	(6,691)	(8,476)
Bond discount/issue costs paid	-0-	-0-	-0-
Net cash provided (used) by capital and related financing activities	648,965	(129,872)	(71,541)
Cash flows from investing activities:			
Principal received (loaned) on Fairground Note	-0-	-0-	-0-
Capital grants	-0-	-0-	-0-
Interest on investments	15,292	11,074	5,645
Industrial development contribution	-0-	-0-	-0-
Principal received (loaned) on employee loans	-0-	-0-	-0-
Principal received on intra-utility notes	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net cash provided by investing activities	<u>15,292</u>	<u>11,074</u>	<u>5,645</u>
Net increase (decrease) in cash and cash equivalents	996,565	140,921	143,557
Cash and cash equivalents beginning of year	<u>527,924</u>	<u>387,003</u>	<u>243,446</u>
Cash and cash equivalents end of year	<u>\$1,524,489</u>	<u>\$527,924</u>	<u>\$387,003</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$209,118	\$219,751	\$140,162
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	54,333	58,039	57,974
Amortization expense	427	1,262	1,646
(Increase) decrease in customer accounts receivable and unbilled usage and other accounts receivable	(8,230)	(19,948)	(1,659)
(Increase) decrease in inventories	1,762	(1,151)	83
(Increase) decrease in prepaid expenses	24	305	9,559
(Increase) decrease in accounts payable	63,814	(2,351)	3,739
(Increase) decrease in payroll taxes & use tax payable	-0-	-0-	-0-

¹ Harlan Municipal Utilities Independent Auditors' Report Basic Financial Statements and Supplementary Information Schedule of Findings and Questioned Costs, June 30, 2008, pp. 20-23

² Harlan Municipal Utilities Independent Auditors' Report Basic Financial Statements and Supplementary Information Schedule of Findings and Questioned Costs, June 30, 2007, pp. 20-23

³ Harlan Municipal Utilities Independent Auditors' Report Basic Financial Statements and Supplementary Information Schedule of Findings and Questioned Costs, June 30, 2006, pp. 20-23

(Increase) decrease in sales & use tax payable	6,992	102	147
(Increase) decrease in salaries payable	3,311	(1,073)	(117)
(Increase) decrease in property tax payable	-0-	-0-	-0-
(Increase) decrease in other payables	<u>1,285</u>	<u>5,278</u>	<u>(1,666)</u>
Net cash provided by operating activities	<u>332,836</u>	<u>260,214</u>	<u>209,868</u>

Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Assets:

Current assets:

Cash and pooled investments	584,984	368,259	233,436
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Restricted assets:

Cash and pooled investments:

Revenue bond retirement	24,783	18,599	18,201
Revenue bond debt service	123,722	31,723	31,722
Capital improvements	668,000	-0-	-0-
Designated contingency fund	123,000	109,343	103,644
Consumers' deposit fund	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Cash and cash equivalents end of year	<u>\$1,524,489</u>	<u>\$527,924</u>	<u>\$387,003</u>

15

**IOWA COMMUNICATIONS NETWORK
STATEMENT OF NET ASSETS
JUNE 30, 2008; 2007; 2006**

	2008* ¹	2007 ²	2006 ³
Assets			
Current assets:			
Cash and cash equivalents	\$10,306,467	\$10,994,993	\$9,529,245
Accounts receivable, net	4,976,703	371,142	1,548,396
Interest receivable	98,122	138,099	
Due from other state agencies		3,583,548	2,934,439
Inventory	1,080,900	1,113,132	<u>1,012,839</u>
Prepaid Expense	<u>193,714</u>	<u>309,021</u>	
Total current assets	<u>16,655,906</u>	<u>16,509,935</u>	<u>15,024,919</u>
Noncurrent assets:			
Capital assets-non depreciable			116,988
Capital assets-depreciable, net	28,631,705	34,239,944	40,053,280
Prepaid expense	<u>305,356</u>	<u>406,623</u>	<u>772,900</u>
Total noncurrent assets	<u>28,937,061</u>	<u>34,646,567</u>	<u>40,943,168</u>
Total assets	<u>45,592,967</u>	<u>51,156,502</u>	<u>55,968,087</u>
Liabilities			
Current liabilities:			
Accounts payable	2,281,940	3,915,076	3,670,885
Due to other state agencies		106,003	78,686
Due to State Treasurer	250,000		
Deferred revenue	38,185	62,375	188,981
Compensated absences	<u>621,907</u>	<u>506,873</u>	<u>590,038</u>
Total current liabilities	3,192,032	4,590,327	4,528,590
Noncurrent liabilities:			
Due to State Treasurer	500,000		
Compensated absences	420,809	<u>77,505</u>	
Other Post-Employment Benefits	48,590		
Total noncurrent liabilities	<u>969,399</u>		
Total Liabilities	4,161,431	4,667,832	
Net Assets			
Invested in capital assets	28,631,705	34,239,944	40,170,268
Unrestricted	<u>12,799,831</u>	<u>12,248,726</u>	<u>11,269,229</u>
Total net assets	<u>\$41,431,536</u>	<u>\$46,488,670</u>	<u>\$51,439,497</u>

*Unaudited

¹ Iowa Communications Network Fiscal Year 2008 Annual Report, p. 22

² Iowa Communications Network Independent Auditor's Reports...June 30, 2007, p. 13

³ Iowa Communications Network Independent Auditor's Reports...June 30, 2006, p. 13

IOWA COMMUNICATIONS NETWORK
SCHEDULE OF OPERATING REVENUES AND EXPENSES
JUNE 30, 2008; 2007; 2006

	2008* ¹	2007 ²	2006 ³
Operating revenues:			
Sales, rents and services:			
Video services	\$3,967,225	\$4,696,204	\$5,518,043
Voice services	9,822,679	9,868,159	10,073,674
Data services	17,016,299	16,735,803	16,735,489
Equipment sales	13,570	45,096	28,221
Installation fees	1,466,822	1,483,429	1,518,868
Other revenues	<u>176,560</u>	<u>124,443</u>	<u>110,520</u>
Total operating revenues	32,463,155	32,953,134	33,984,815
Less: bad debt expense	<u>(25,504)</u>	<u>(162,003)</u>	<u>(48,148)</u>
Net operating revenues	<u>32,437,651</u>	<u>32,791,131</u>	<u>33,936,667</u>
Operating expenses:			
Direct expenses:			
Voice costs	3,940,583	3,757,390	4,522,494
Data costs	6,854,575	7,113,617	7,224,711
Video costs	439,418	559,780	962,380
Installation costs	522,123	938,788	616,851
Costs of goods sold	-	19,145	-
Total direct expenses	<u>11,756,759</u>	<u>12,388,720</u>	<u>13,326,436</u>
Depreciation expense	<u>7,796,759</u>	<u>8,265,390</u>	<u>8,235,229</u>
Other operating expenses:			
Network equipment	1,065,629	1,903,057	561,653
System maintenance	6,889,124	6,849,590	6,700,813
Outside plant costs	1,042,146	1,075,297	1,040,840
System utility costs	69,317	84,148	110,705
System repair costs	162,287	174,043	128,777
Other system costs	54,329	54,330	66,264
Network installation costs	307,150	748,328	864,601
Loss on disposal of capital assets and inventory	<u>178,748</u>	<u>129,051</u>	<u>254,624</u>
Total other operating expenses	<u>9,768,730</u>	<u>11,071,844</u>	<u>9,728,277</u>
General and administrative expenses:			
Personal	8,848,088	7,701,879	7,628,693
Travel	143,485	155,728	171,546
Administrative services	143,210	98,642	203,067
Rent	106,843	112,215	-
Professional fees	233,693	196,150	182,601
Other general and administrative	<u>108,670</u>	<u>258,127</u>	<u>184,086</u>
Total general and administrative expenses	<u>9,583,989</u>	<u>8,522,741</u>	<u>8,369,993</u>
Total operating expenses	<u>38,906,177</u>	<u>40,194,695</u>	<u>39,659,935</u>
Operating Loss	<u>\$(6,468,526)</u>	<u>\$(7,403,564)</u>	<u>\$(5,723,268)</u>

*Unaudited

¹ Iowa Communications Network Fiscal Year 2008 Annual Report, p. 20

² Iowa Communications Network Independent Auditor's Report...June 30, 2007 p.22

³ Iowa Communications Network Independent Auditor's Report...June 30, 2006 p. 22

IOWA COMMUNICATIONS NETWORK
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
JUNE 30, 2008; 2007; 2006

	2008* ¹	2007 ²	2006 ³
Operating revenues:			
Sales, rents and services	\$32,437,651	\$32,791,131	\$33,936,667
Operating expenses:			
Direct expenses	11,756,699	12,388,720	13,326,436
Depreciation expense	7,796,759	8,265,390	8,235,229
Other operating expenses	9,768,730	11,017,844	9,728,277
General and administrative expenses	<u>9,583,989</u>	<u>8,522,741</u>	<u>8,369,993</u>
Total operating expenses	<u>38,906,177</u>	<u>40,194,695</u>	<u>39,659,935</u>
Operating loss	(6,468,526)	(7,403,564)	(5,723,268)
Nonoperating revenues:			
State appropriations	2,067,000	1,997,500	1,704,719
Investment income	<u>344,392</u>	<u>455,237</u>	
Total non-operating revenues	<u>2,411,392</u>	<u>2,452,737</u>	
Loss before other revenues			(4,018,549)
Other revenues:			
Capital contributions			124,573
Decrease in net assets	(4,057,134)	(4,950,827)	(3,893,976)
Net assets beginning of year, as restated	<u>45,488,670</u>	<u>51,439,497</u>	<u>55,333,473</u>
Net assets end of year	<u>\$41,431,536</u>	<u>\$46,488,670</u>	<u>\$51,439,497</u>

*Unaudited

¹ Iowa Communications Network Fiscal Year 2008 Annual Report, p. 23

² Iowa Communications Network Independent Auditor's Report...June 30, 2007 p. 14

³ Iowa Communications Network Independent Auditor's Report...June 30, 2006 p. 14

IOWA COMMUNICATIONS NETWORK
STATEMENT OF CASH FLOWS
JUNE 30, 2008; 2007; 2006

	2008* ¹	2007 ²	2006 ³
Cash flows from operating activities:			
Cash received from customers	\$31,391,448	\$33,192,669	\$35,300,233
Cash paid for goods and services	(23,572,915)	(23,869,904)	(25,123,414)
Cash paid for salaries and benefits	(8,341,160)	(7,707,538)	(7,574,459)
Net cash provided by (used by) operating activities	<u>(522,627)</u>	<u>1,615,227</u>	<u>2,602,360</u>
Cash flows from non-capital financing activities:			
State appropriations			<u>1,704,719</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(2,367,269)	(2,464,117)	(2,769,151)
Capital contributions			124,573
Payment to State Treasurer	(250,000)	-	-
State appropriations	<u>2,067,000</u>	<u>1,997,500</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(550,269)</u>	<u>(466,617)</u>	<u>(2,644,578)</u>
Cash flows from investing activities			
Interest received on investments	<u>384,370</u>	<u>317,138</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(688,526)	1,465,748	1,662,501
Cash and cash equivalents beginning of year	<u>10,994,993</u>	<u>9,529,245</u>	<u>7,866,744</u>
Cash and cash equivalents end of year	<u>\$10,306,467</u>	<u>\$10,994,993</u>	<u>\$9,529,245</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	<u>(6,468,526)</u>	<u>\$(7,403,564)</u>	<u>\$(5,723,268)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:			
Depreciation expense	7,796,759	8,265,390	8,235,229
Loss on disposal of capital assets and inventory	178,748	129,051	254,624
(Increase) Decrease in accounts receivable	(4,605,561)	1,177,254	1,202,268
(Increase) Decrease in due from other state agencies	3,583,548	(649,109)	296,995
(Increase) Decrease in inventory	32,232	(100,293)	(537,600)
(Increase) Decrease in prepaid expenses	216,574	57,256	(188,967)
(Decrease) in deferred revenue	(24,190)	(126,606)	(135,697)
(Decrease) Increase in accounts payable	(1,633,136)	244,191	762,639
(Decrease) in due to other state agencies	(106,003)	27,317	(1,618,097)
Increase in compensated absences	<u>506,928</u>	<u>(5,660)</u>	<u>54,234</u>
Total adjustments	<u>5,945,899</u>	<u>9,018,791</u>	<u>8,325,628</u>
Net cash used by operating activities	<u>\$(522,627)</u>	<u>\$1,615,227</u>	<u>\$2,602,360</u>

*Unaudited

¹ Iowa Communications Network Fiscal Year 2008 Annual Report, p. 21

² Iowa Communications Network Independent Auditor's Report...June 30, 2007 p. 15

³ Iowa Communications Network Independent Auditor's Report...June 30, 2006, p. 15

KENTUCKY:

GLASGOW ELECTRIC PLANT BOARD (EPB)
SCHEDULE OF OPERATING REVENUE AND EXPENSE-CATV DIVISION
YEARS ENDED, 2008, 2007, 2006

	2008 ¹	2007 ²	2006 ³
OPERATING REVENUE			
Basic service	\$850,658	\$846,214	
Classic service	1,278,021	1,192,446	
Digital service	139,062	99,382	
High definition cable	59,536	38,106	
Premium service	219,889	222,801	
Pay per view	23,954	30,694	
Equipment rental	272,494	203,356	
Commercial insert	319,920	336,606	
Miscellaneous time charge	34,493	33,823	
Fiber circuit rental	-	57,983	
Local origination income	39,991	33,214	
Miscellaneous service revenue	63,326	85,930	
Wire maintenance plan	1,440	812	
Commission	<u>14,604</u>	<u>18,608</u>	
Total operating revenue	<u>3,317,388</u>	<u>3,199,975</u>	
OPERATING EXPENSES			
Cost of sales and services			
Programming	1,752,544	1,632,374	
Signal delivery expense	<u>38,535</u>	<u>23,071</u>	
Total cost of sales and services	<u>1,791,079</u>	<u>1,655,445</u>	
OPERATIONS EXPENSE			
Customer records and collections	29,376	24,833	
Selling expense	58,129	45,479	
Customer information and services	29,996	25,327	
Customer information	3,135	5,335	
Customer incentives	11,542	10,668	
Supervision and engineering	65,299	103,809	
Customer installation	120,939	95,838	
Uncollectible accounts	115,791	30,154	
Employee benefits	110,343	113,635	
Outside services	7,774	4,558	
Administrative and general salaries	48,896	46,258	
Office supplies and expenses	54,410	51,596	
Taxes	54,596	54,891	
Rent	182,196	182,196	
Local origination expense	42,731	47,073	
Property insurance	12,000	11,765	
General and administration	690	184	
Miscellaneous operating expenses	78,692	86,083	
Injuries and damages	<u>10,461</u>	<u>10,049</u>	
Total operations expense	<u>1,036,996</u>	<u>949,731</u>	
Maintenance expense	<u>2,482</u>	<u>7,296</u>	
Depreciation	<u>273,082</u>	<u>265,407</u>	
OTHER REVENUE AND (EXPENSES)			
Interest income	17,031	26,787	
Miscellaneous income	7,775	-	
Amortization or debt expense	(8,428)	(18,782)	
Interest on long-term debt	<u>(195,811)</u>	<u>(197,969)</u>	
Total other revenue and (expenses)	<u>(179,433)</u>	<u>(197,969)</u>	
Net Income	<u>\$34,316</u>	<u>\$124,127</u>	

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MASSACHUSETTS:

**BRAINTREE ELECTRIC LIGHT DEPARTMENT-BROADBAND DIVISION
STATEMENT OF NET ASSETS AND LIABILITIES
FOR YEAR ENDED DECEMBER 31, 2008; 2007; 2006**

	2008 ¹	2007 ²	2006 ³
ASSETS			
Current Assets:			
Funds on Deposit with Town Treasurer			
Operating Fund	\$416,837	\$95,017	\$341,280
Customer accounts receivable, net	159,687	142,629	160,936
Accounts receivable-related party	0	0	
Other receivables	0	0	0
Materials and supplies	25,000	54,354	14,195
Unbilled Revenue	0	17,772	0
Prepaid Working Capital	0	0	58,062
Prepaid expenses	<u>117,808</u>	<u>171,123</u>	<u>105,543</u>
Total Current Assets	<u>719,332</u>	<u>480,895</u>	<u>680,016</u>
Noncurrent Assets			
Funds on deposit with Town Treasurer			
Depreciation fund	6,324	6,193	5,708
Rate Stabilization fund	0	0	0
Construction fund	0	0	
Customer deposits	0	0	0
Investment in Energy New England	0	0	0
Investment in Hydro-Quebec Phase II	0	0	0
Other Investments	0	0	0
Investment in Affiliate Company	(936,759)	(895,092)	(847,069)
Plant assets, net	3,260,027	3,671,464	3,912,364
Total Noncurrent assets	<u>3,048,924</u>	<u>2,782,565</u>	<u>3,071,003</u>
Total Assets	<u>\$3,768,256</u>	<u>\$3,263,460</u>	<u>\$3,751,019</u>
LIABILITIES			
Current Liabilities:			
Total Capitalization			636,744
Accounts Payable	\$381,503	\$331,523	451,541
Accrued Accounts Payable			(28,666)
Accounts Payable-related party	18,094	2,432	
Accrued compensated absences	17,257	15,563	22,186
Other Accrued expenses	7,816	12,486	19,214
Short-term Debt Expected to be Refinanced:			
Bond Anticipation Note	0		
Bond Payable	500,000	500,000	500,000
Deferred Revenue	<u>0</u>	<u>0</u>	
Total Current Liabilities	<u>924,670</u>	<u>862,004</u>	<u>1,601,019</u>
Noncurrent Liabilities:			
Note Payable, Net of current portion	0	1,650,000	
Bonds payable, net of current portion	1,150,000	0	2,150,000
Rate Stabilization Reserve	0	0	0
Net OPEB Obligation	226,888		
Customer Deposits	0	0	
Deferred Revenue	0	0	0
Total Noncurrent Liabilities	<u>1,376,888</u>	<u>1,650,000</u>	<u>2,150,000</u>
Total Liabilities	<u>2,301,558</u>	<u>2,512,004</u>	<u>3,751,019</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	1,610,027	2,021,464	
Unrestricted	(862,660)	(1,270,008)	
Total Net Assets	<u>747,367</u>	<u>751,456</u>	
Total Liabilities and Net Assets	<u>\$3,048,925</u>	<u>\$3,263,460</u>	

¹ Braintree Electric Light Department 2008 Annual Report, p.14

² Braintree Electric Light Department 2007 Annual Report, p.12

³ Braintree Electric Light Department 2006 Annual Report, p. 12

**BRAINTREE ELECTRIC LIGHT DEPARTMENT-BROADBAND DIVISION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR YEAR ENDED DECEMBER 31, 2008; 2007; 2006**

	2008 ¹	2007 ²	2006 ³
OPERATING REVENUES:			
Sales to Ultimate Customers	\$5,957,367	\$6,364,239	\$6,097,263
Other Operating Revenues	<u>494,538</u>	<u>153,597</u>	<u>0</u>
Total Operating Revenues	<u>\$6,451,905</u>	<u>\$6,517,836</u>	<u>6,097,263</u>
OPERATING EXPENSES:			
Purchase Power	0	0	0
Fuel for Generators	0	0	0
Signal Fees	2,152,606	2,402,808	2,458,260
Maintenance	634,809	556,028	103,150
Distribution	1,200,029	962,498	1,119,672
General & Administration	1,634,960	1,793,484	1,520,312
Depreciation Expense	<u>620,353</u>	<u>592,120</u>	<u>552,404</u>
Total Operating Expenses	<u>6,242,757</u>	<u>6,306,938</u>	<u>5,753,798</u>
Operating Income:	209,148	210,898	343,465
NONOPERATING REVENUES (EXPENSES):			
Investment Loss-ENE	0	0	0
Interest and Dividend Income	131	485	570
Interest Expense	<u>(99,924)</u>	<u>(103,667)</u>	<u>(110,433)</u>
Total Nonoperating Revenues (Expenses)	<u>(99,793)</u>	<u>(103,182)</u>	<u>(114,557)</u>
Income Before Contributions and Transfers	109,355	107,716	228,908
NET ASSETS-January 1	638,012	643,740	
Transfers Out-Payment in Lieu of Taxes	<u>0</u>	<u>0</u>	<u>0</u>
NET ASSETS-December 31	<u>\$747,367</u>	<u>\$751,456</u>	

¹ Braintree Electric Light Department 2008 Annual Report, p.15

² Braintree Electric Light Department 2007 Annual Report, p.13

³ Braintree Electric Light Department 2006 Annual Report,

MICHIGAN:

CITY OF NEGAUNEE, MICHIGAN--CABLE UTILITY FUND
STATEMENT OF NET ASSETS
YEARS ENDED DECEMBER 31, 2008; 2007; 2006

	2008 ¹	2007 ²	2006 ³
ASSETS			
Current Assets:			
Cash and cash equivalents		\$69,870	\$143,857
Restricted assets-cash		50,000	50,000
Accounts receivable		40,902	36,469
Allowance for uncollectible accounts		<u>(1,300)</u>	<u>(1,300)</u>
Total Current Assets		<u>159,472</u>	<u>229,026</u>
Non-current Assets:			
Property, plant and equipment		596,669	556,682
Accumulated depreciation		<u>(522,765)</u>	<u>(513,120)</u>
Total Non-Current Assets		<u>73,904</u>	<u>43,562</u>
Total Assets		<u>233,376</u>	<u>272,588</u>
LIABILITIES			
Current Liabilities:			
Accounts payable		22,053	25,703
Accrued salaries		1,812	1,473
Accrued sick and vacation leave		1,309	1,051
Current portion of notes payable		=	=
Total Current Liabilities		<u>25,174</u>	<u>28,227</u>
Non-Current Liabilities:			
Long term portion of notes payable		<u>27,987</u>	=
Total Non-Current Liabilities		<u>27,987</u>	=
Total Liabilities		<u>53,161</u>	<u>28,227</u>
NET ASSETS			
Invested in capital assets net of related debt		45,917	43,562
Net Assets:			
Unrestricted		<u>134,298</u>	<u>200,799</u>
Total Net Assets		<u>\$180,215</u>	<u>\$244,361</u>

¹² City of Negaunee, Michigan Financial Statements For Year Ended December 31, 2007, p.75³ City of Negaunee, Michigan Financial Statements For Year Ended December 31, 2007, p.75

CITY OF NEGAUNEE, MICHIGAN—CABLE UTILITY FUND
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS-BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2008; 2007; 2006

	2008 ¹	2007 ²	2006 ³
OPERATING REVENUES:			
Cable TV subscriptions		\$384,226	\$380,890
Home Box office		16,824	20,255
Cable TV installation fee		3,493	3,987
Miscellaneous		<u>6,883</u>	<u>22,272</u>
Total Operating Revenues		<u>411,426</u>	<u>427,404</u>
OPERATING EXPENSES:			
Transmission and distribution		100,901	83,364
Provision for depreciation		9,646	9,193
Customer accounting and collection		36,791	38,467
Administrative and general		84,367	62,405
Services purchased		<u>252,024</u>	<u>241,906</u>
Total Operating Expenses		<u>483,729</u>	<u>435,335</u>
Operating Income (Loss)		<u>(72,303)</u>	<u>(7,931)</u>
NONOPERATING REVENUES (EXPENSES):			
Interest Income		6,868	6,369
Penalties on delinquent accounts		<u>1,289</u>	=
Total Nonoperating Revenues		<u>8,157</u>	<u>6,369</u>
Change in Net Assets		(64,146)	(1,562)
Net assets beginning of year		<u>244,361</u>	<u>245,923</u>
Net Assets, end of year		<u>\$180,215</u>	<u>\$244,361</u>

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² City of Negaunee, Michigan Financial Statements For Year Ended December 31, 2007, p.76

³ City of Negaunee, Michigan Financial Statements For Year Ended December 31, 2007, p.76

CITY OF NEGAUNEE, MICHIGAN—CABLE UTILITY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008; 2007; 2006

	2008 ¹	2007 ²	2006 ³
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net cash received from fees and charges for services		\$400,110	\$403,115
Other operating revenues		6,883	22,272
Cash payments to employees for services		(79,134)	(83,123)
Cash payments for payroll taxes		(6,052)	(5,159)
Cash payments to suppliers for goods and services		<u>(363,963)</u>	<u>(333,220)</u>
Net cash provided (used) by operating activities		<u>(42,156)</u>	<u>3,885</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Payments (to) from other funds		-	-
Increase in due to other funds		=	=
Net cash provided (used) by noncapital financing activities		=	=
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets		(39,988)	-
Principal payments on long-term debt		-	-
Interest paid on long-term debt		-	-
Penalties on delinquent accounts		<u>1,289</u>	=
Net cash provided (used) by capital and related financing activities		<u>(38,699)</u>	=
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment Income		<u>6,868</u>	<u>6,369</u>
Net cash provided (used) by investing activities		<u>6,868</u>	<u>6,369</u>
Net Increase (decrease) in cash and cash equivalents		(73,987)	10,254
Cash and cash equivalents, beginning of year		<u>193,857</u>	<u>183,603</u>
Cash and cash equivalents, end of year		<u>\$119,870</u>	<u>\$193,857</u>
Reconciliation of Statement of Net Assets:			
Cash and cash equivalents		\$69,870	\$143,857
Restricted assets-cash		<u>50,000</u>	<u>50,000</u>
Total cash and cash equivalents per statement of net assets		<u>\$119,870</u>	<u>\$193,857</u>
Reconciliation of Operating Income to Net Cash provided (used) by operating activities:			
Operating income (loss)		<u>\$(72,303)</u>	<u>\$(7,931)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		9,646	9,193
Change in assets and liabilities:			
(Increase) decrease in accounts receivable, net		(4,433)	(2,017)
Increase (decrease) in accounts payable		(3,650)	4,403
Increase (decrease) in payroll liabilities		597	237
Increase (decrease) in notes payable		<u>27,987</u>	=
Net Adjustments		<u>30,147</u>	<u>11,816</u>
Net cash provided (used) by operating activities		<u>\$(42,156)</u>	<u>\$3,885</u>

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² City of Negaunee, Michigan Financial Statements For Year Ended December 31, 2007, p.77

³ City of Negaunee, Michigan Financial Statements For Year Ended December 31, 2007, p.77

NORTH CAROLINA:**CITY OF MORGANTON-CoMPAS Cable
STATEMENT OF NET ASSETS
YEAR ENDED JUNE 30, 2008; 2007; 2006**

	2008 ¹	2007	2006
ASSETS			
Current Assets:			
Cash and cash equivalents			
Investments			
Accounts receivable (net)	296,413		
Interest receivable			
Inventories			
Due from other funds			
Restricted cash	=		
Total current assets	<u>296,413</u>		
Noncurrent Assets:			
Notes receivable			
Capital assets (net)	<u>6,458,795</u>		
Total noncurrent assets	<u>6,458,795</u>		
Total Assets	<u>6,755,208</u>		
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued liabilities	168,703		
Due to other funds	2,932,388		
Customer deposits	11,200		
Bonds payable-current maturities			
Installment purchase-current maturities	1,046,428		
Matured bonds payable	=		
Total current liabilities	<u>4,158,719</u>		
Noncurrent liabilities:			
Accrued vacation pay	15,342		
Bonds payable-noncurrent			
Installment purchase-noncurrent maturities	<u>1,569,643</u>		
Total noncurrent liabilities	<u>1,584,985</u>		
Total Liabilities	<u>5,743,704</u>		
Net Assets			
Invested in capital assets, net of related debt	3,842,724		
Unrestricted	<u>(2,831,220)</u>		
Total Net Assets	<u>\$1,011,504</u>		

¹ City of Morganton Comprehensive Annual Financial Report Year Ended June 30, 2008, p. 27

CITY OF MORGANTON-CoMPAS Cable
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2008; 2007; 2006

	2008 ¹	2007	2006
OPERATING REVENUES:			
Charges for services	<u>\$3,496,493</u>		
OPERATING EXPENSES:			
Water treatment and maintenance			
Wastewater treatment and maintenance			
Operations and construction			
Operations and maintenance	2,878,104		
Community House operations			
MIS, Garage and Warehouse operations			
Depreciation	<u>1,054,493</u>		
Total	<u>3,932,597</u>		
OPERATING INCOME (LOSS)	<u>(436,104)</u>		
NONOPERATING REVENUES (EXPENSES):			
Interest on investments			
Private contributions			
Interest expense	(83,179)		
Sale of materials			
Interest on bonds			
Amortization of deferred charge on refundings			
Miscellaneous	<u>157,124</u>		
Total	<u>73,945</u>		
INCOME (LOSS) BEFORE TRANSFERS	<u>(362,159)</u>		
Transfers			
IN	<u>150,000</u>		
OUT			
Total	<u>150,000</u>		
Change in Net assets	<u>(212,159)</u>		
Total Net Assets-beginning	<u>1,223,663</u>		
Total Net Assets-ending	<u>\$1,011,504</u>		

¹ City of Morganton Comprehensive Annual Financial Report Year Ended June 30, 2008, p. 28

CITY OF MORGANTON-CoMPAS Cable
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2008; 2007; 2006

	2008 ¹	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$3,496,493		
Payment to suppliers	(2,431,635)		
Payments to employees	<u>(420,577)</u>		
Net cash provided (used) by operating activities	<u>644,281</u>		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers-in	150,000		
Transfers (out)			
Interfund borrowing	178,203		
Noncapital contributions received (used)	<u>157,124</u>		
Net cash provided (used) by noncapital financing activities	<u>485,327</u>		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets			
Principal paid on capital debt	<u>(1,046,429)</u>		
Interest paid on capital debt	<u>(83,179)</u>		
Net cash provided (used) by capital and related financing activities	<u>(1,129,608)</u>		
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales and maturities of investments			
Purchase of investments			
Interest on investments			
Net cash provided (used) by investing activities			
Net Increase (Decrease) in cash and cash equivalents	Nil		
Cash and cash equivalents at beginning of year	<u>Nil</u>		
Cash and cash equivalents at end of year	<u>Nil</u>		
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (loss)	<u>\$(436,104)</u>		
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	<u>1,054,493</u>		
Changes in assets and liabilities:			
(Increase) Decrease in accounts receivable	<u>35,302</u>		
(Increase) Decrease in inventories			
Increase (Decrease) in accounts payable and accrued liabilities	<u>(8,587)</u>		
Increase (Decrease) in customer deposits	<u>(600)</u>		
Increase (Decrease) in accrued vacation pay	<u>(223)</u>		
Net cash provided (used) by operating activities	<u>\$644,281</u>		
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Decrease in fair value of investments			
Amortization of deferred charges on refunding			
Total noncash investing, capital and financing activities			

¹ City of Morganton Comprehensive Annual Financial Report Year Ended June 30, 2008, pp. 29-30

OHIO:

CITY OF LEBANON, OHIO—TELECOMMUNICATIONS SYSTEM
STATEMENT OF FUND NET ASSETS
FOR YEAR ENDED DECEMBER 31, 2008; 2007; 2006

	2008 ¹	2007 ²	2006 ³
ASSETS			
Current Assets:			
Equity Pooled Cash and Cash Equivalents		\$226,806	\$707,655
Materials and Supplies Inventory		115,624	227,193
Accounts Receivable, net		4,000,000	648,362
Interfund Receivable		0	0
Intergovernmental Receivable		0	0
Prepaid Items		210	10,037
Special Assessments Receivable		0	0
Restricted Assets			
Cash and cash equivalents with Fiscal Agents		<u>0</u>	<u>0</u>
Total Current Assets		<u>4,342,640</u>	<u>1,593,247</u>
Noncurrent Assets:			
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents		0	0
Cash and Cash Equivalents with Fiscal Agents		0	0
Deferred Charges		0	0
Advances to Other Funds		0	0
Nondepreciable Capital Assets		0	0
Depreciable Capital Assets, Net		<u>5,762</u>	<u>5,171,764</u>
Total Noncurrent Assets		<u>5,762</u>	<u>5,171,764</u>
Total Assets		<u>4,348,402</u>	<u>6,765,011</u>
LIABILITIES:			
Current Liabilities:			
Accounts Payable		594	237,807
Accrued Wages		2,155	15,840
Contracts Payable		-	30,725
Intergovernmental Payable		3,251	24,795
Accrued Interest Payable		29,458	32,545
Retainage Payable		0	0
Interfund Payable		0	4,558,758
Claims Payable		0	0
Capital Leases Payable		-	52,390
Notes Payable		1,750,000	1,750,000
Compensated Absences Payable		2,659	6,486
Mortgage Revenue Bonds Payable		<u>0</u>	<u>0</u>
Total Current Liabilities		<u>1,788,117</u>	<u>6,709,346</u>
Long-term liabilities:			
Refundable Deposits		0	0
Advances from other Funds		3,546,158	3,546,158
Compensated Absences Payable		2,206	8,231
Mortgage Revenue Bonds Payable		0	0
Capital Leases Payable			<u>150,381</u>
Total Long-term liabilities		<u>3,548,364</u>	<u>3,704,770</u>
Total Liabilities		<u>5,336,481</u>	<u>10,414,116</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt (Deficit)		(1,744,238)	3,218,993
Restricted for:			
Revenue Bonds			
Replacement and Improvement		0	0
Revenue Bonds			
Current Debt Service		0	0
Unrestricted (Deficit)		<u>756,159</u>	<u>(6,868,098)</u>
Total Net Assets (Deficit)		<u>(\$988,079)</u>	<u>(\$3,649,105)</u>

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²City of Lebanon, Ohio Comprehensive Annual Financial Report For the Year Ended December 31, 2007, p.26³City of Lebanon, Ohio Comprehensive Annual Financial Report For the Year Ended December 31, 2006, p.28

CITY OF LEBANON, OHIO—TELECOMMUNICATIONS SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR YEAR ENDED DECEMBER 31, 2008; 2007; 2006

	2008 ¹	2007 ²	2006 ³
OPERATING REVENUES:			
Charges for Services		\$169,831	\$5,940,724
Other		<u>0</u>	<u>144,323</u>
Total Operating Revenues		<u>169,831</u>	<u>6,085,047</u>
OPERATING EXPENSES:			
Personal Services		68,776	878,674
Contractual Services		25,015	3,573,346
Purchased Power		0	0
Supplies and Materials		6,441	0
Claims		0	0
Depreciation		443	1,043,124
Other		<u>0</u>	<u>24,682</u>
Total Operating Expenses		<u>100,675</u>	<u>5,519,826</u>
Operating Income (loss)		<u>69,156</u>	<u>565,221</u>
NON-OPERATING REVENUES (EXPENSES):			
Interest		0	49,338
Other Non-Operating Revenues		139	63,228
Gain on Sale of Capital Assets		-	0
Loss on Sale of Capital Assets		0	0
Interest and Fiscal Charges		(109,982)	(314,536)
Total Non-Operating Revenues (Expenses)		<u>(109,843)</u>	<u>(201,970)</u>
Income (Loss) Before Contributions and Transfers		(40,687)	363,251
Capital Contributions		0	0
Transfers In		0	0
Transfers Out		<u>0</u>	<u>(691,568)</u>
Income (loss) from Continuing Operations		<u>(40,687)</u>	
DISCONTINUED OPERATIONS:			
Loss from Discontinued Segments of Telecommunications Operations		(328,948)	
Gain on Disposal of Segments of Telecommunications Operations		<u>2,742,921</u>	
Change in Net Assets		2,373,286	(328,317)
Net Assets (Deficit) at Beginning of Year		<u>(3,361,365)</u>	<u>(3,320,788)</u>
Net Assets (Deficit) at End of Year		<u>\$(988,079)</u>	<u>\$(3,649,105)</u>

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² City of Lebanon, Ohio Comprehensive Annual Financial Report For the Year Ended December 31, 2007, pp.28-29

³ City of Lebanon, Ohio Comprehensive Annual Financial Report For the Year Ended December 31, 2006, pp.30-31

CITY OF LEBANON, OHIO—TELECOMMUNICATIONS SYSTEM
STATEMENT OF CASH FLOWS
FOR YEAR ENDED DECEMBER 31, 2008; 2007; 2006

	2008 ¹	2007 ²	2006 ³
Increase (Decrease) in Cash and Cash Equivalents:			
Cash Flows from Operating Activities:			
Cash Received from Customers		\$1,093,215	\$5,939,255
Cash Payments for Employee Services and Benefits		(286,667)	(877,177)
Cash Payments to Suppliers for Goods and Services		(1,163,239)	(3,692,551)
Cash Payments for Employee Medical, Dental, and Life Insurance		0	0
Cash payments for Interfund Services Provided		0	0
Other Operating Revenues		86,820	144,323
Other Non-Operating Revenues		10,840	63,228
Utility Deposits Received		0	0
Utility Deposits Returned		0	0
Net Cash Provided by (used for) Operating Activities		<u>(259,031)</u>	<u>1,577,078</u>
Cash flows from noncapital Financing Activities			
Repayment of Advances from Another Fund		(4,558,561)	(107,925)
Transfers In		601,000	0
Transfers Out		<u>(135,280)</u>	<u>(691,568)</u>
Net Cash Provided by (used for) Noncapital Financing Activities		<u>(4,092,841)</u>	<u>(799,493)</u>
Cash Flows from Capital and Related Financing Activities:			
Cash received from Special Assessments		0	0
Proceeds from the Sale of Discontinued Segments of Telecommunications Operations		4,620,000	
Proceeds from Sale of Capital Assets		0	0
Principal Paid on Capital Leases		(617,607)	(50,340)
Interest Paid on Capital Leases		(4,375)	(9,208)
Acquisition of Capital Assets		0	(807,012)
Proceeds from sale of Notes		1,750,000	1,750,000
Principal paid on Notes		(1,750,000)	(1,750,000)
Interest Paid on Notes		(113,434)	(81,576)
Premium on Notes Issued		365	
Proceeds from Sale of Refunding Bonds			0
Premium on Refunding Bonds Issued			0
Principal paid on Mortgage Revenue Bonds		0	(205,000)
Interest and Fiscal Charges Paid on Mortgage Revenue Bonds		0	(231,934)
Payment to Refunded Bond Escrow Agent			0
Bond issuance costs on Mortgage Revenue Bonds			0
Net Cash Used for Capital and related Financing Activities		<u>3,884,949</u>	<u>(1,385,070)</u>
Cash Flows from Investing Activities:			
Interest		0	<u>49,338</u>
Net Cash Provided by Investing Activities		<u>0</u>	<u>49,338</u>
Net Increase (Decrease) in Cash and Cash Equivalents		(466,923)	(558,147)
Cash and cash equivalents Beginning of Year		<u>693,729</u>	<u>1,265,802</u>
Cash and cash equivalents End of Year		<u>\$226,806</u>	<u>\$707,655</u>
Reconciliation of Operating Income (loss) to Net Cash Provided by (used for) Operating Activities:			
Operating Income (Loss)		\$(731,838)	\$565,221
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation		215,521	1,043,124
Other Non-Operating Revenues		10,840	63,228
Changes in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable		157,214	(1,469)
(Increase) Decrease in Interfund Receivable		0	0

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² City of Lebanon, Ohio Comprehensive Annual Financial Report For the Year Ended December 31, 2006, pp.30-33

³ City of Lebanon, Ohio Comprehensive Annual Financial Report For the Year Ended December 31, 2006, pp.32-35

Decrease in Intergovernmental Receivable	0	0
(Increase) Decrease in Materials and Supplies Inventory	22,482	(22,483)
(Increase) Decrease in prepaid items	(210)	6,324
Increase (Decrease) in Accounts Payable	142,963	(109,035)
Increase (Decrease) in Claims Payable	0	0
Increase (Decrease) in Contracts Payable	(30,725)	30,725
Increase (Decrease) in Contracts Payable Retainage	0	0
Increase (Decrease) in Accrued Wages Payable	(13,685)	(599)
Increase (Decrease) in Interfund Payable	(197)	(54)
Increase (Decrease) in Intergovernmental Payable	(21,544)	1,795
Increase in Liabilities Payable from Restricted Assets	0	
Increase in Refundable Deposits payable		0
Increase (Decrease) in Compensated Absences Payable	<u>(9,852)</u>	<u>301</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$(259,031)</u>	<u>\$1,577,078</u>

OREGON-ASHLAND FIBER NETWORK:

Ashland Fiber Network
STATEMENT OF NET ASSETS
FOR THE YEARS ENDED 2008; 2007; 2006

	2008 ¹	2007 ²	2006 ³
ASSETS			
Current Assets			
Cash and Investments	\$672,745	\$838,962	\$367,801
Interest and Accounts Receivable, (NET)	253,311	188,790	294,720
Due from Other Funds			-
Due from Other Governments			-
Inventories			590
Deferred Charges	-	-	256,202
Total Current Assets	<u>926,056</u>	<u>1,027,752</u>	<u>919,313</u>
Capital Assets	9,213,359	9,088,275	9,082,525
Accumulated Depreciation	(3,300,140)	(2,472,833)	(1,869,537)
Capital Assets, Net	5,913,219	6,615,442	<u>7,212,988</u>
Other Assets			
Deferred Costs (net of amortization)	1,058,455	1,168,424	1,278,393
Total noncurrent assets	6,971,674	7,783,866	<u>8,491,381</u>
TOTAL ASSETS	<u>7,897,730</u>	<u>8,811,618</u>	<u>9,410,694</u>
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts Payable	30,119	35,831	81,554
Accrued salaries, vacations and payroll taxes	54,281	52,341	62,872
Accrued Interest Payable		-	396,208
Other Liabilities			-
Notes/bonds payable, current portion			-
Total Current Liabilities	<u>84,400</u>	<u>88,172</u>	<u>540,634</u>
Long-term Liabilities			
Notes Payable			-
Revenue Bonds Payable			-
General Obligation Bonds Payable, Net			<u>15,500,000</u>
Total Long-term Liabilities	-		<u>15,500,000</u>
TOTAL LIABILITIES	<u>84,400</u>	<u>88,172</u>	<u>16,040,634</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	5,913,219	6,615,442	(8,287,012)
Restricted for System Development			-
Restricted for Debt Service			-
Unrestricted	<u>1,900,111</u>	<u>2,108,004</u>	1,657,072
TOTAL NET ASSETS	<u>7,813,330</u>	<u>8,723,446</u>	<u>(6,629,940)</u>
Total Liabilities and Net Assets	<u>\$7,897,730</u>	<u>\$8,811,618</u>	<u>\$9,410,694</u>

¹City of Ashland, Oregon Comprehensive Annual Financial Report Year Ended June 30, 2008, p. 26

²City of Ashland, Oregon Comprehensive Annual Financial Report Year Ended June 30, 2007, p. 26

³City of Ashland, Oregon Comprehensive Annual Financial Report Year Ended June 30, 2006, p. 26

Ashland Fiber Network
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008; 2007; 2006

	<u>2008¹</u>	<u>2007²</u>	<u>2006³</u>
OPERATING REVENUES			
Charges for Services, Net	\$1,709,705	\$2,029,467	\$2,703,981
Miscellaneous	69,788	53,951	34,654
TOTAL OPERATING REVENUES	<u>1,779,493</u>	<u>2,083,418</u>	<u>2,738,635</u>
OPERATING EXPENSES			
Costs of sales and services	1,781,834	1,964,142	2,499,175
Depreciation and Amortization	937,276	713,265	783,148
TOTAL OPERATING EXPENSES	<u>2,719,110</u>	<u>2,677,407</u>	<u>3,282,323</u>
Operating Income (Loss)	<u>(939,617)</u>	<u>(593,989)</u>	<u>(543,688)</u>
NONOPERATING REVENUES (EXPENSES)			
Taxes	250	25,569	92,685
Intergovernmental			
Interest Income	29,251	25,598	6,423
Tax Equivalents			(90,037)
Gain (loss) on disposal of assets			
Capital Asset Transfer		15,896,208	
Interest Expense	-	-	(827,753)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>29,501</u>	<u>15,947,375</u>	<u>(818,682)</u>
TRANSFERS IN (OUT)			500,000
Change in Net Assets	(910,116)	15,353,386	(862,370)
NET ASSETS (DEFICITS), JULY 1, 2007;2006;2005	8,723,446	(6,629,940)	(5,767,570)
NET ASSETS, JUNE 30, 2008;2007;2006	<u>\$7,813,330</u>	<u>\$8,723,446</u>	<u>\$(6,629,940)</u>

¹ City of Ashland Comprehensive Annual Financial Report For Year Ended Jun 30, 2008, p.27

² City of Ashland Comprehensive Annual Financial Report For Year Ended Jun 30, 2007, p.27

³ City of Ashland Comprehensive Annual Financial Report For Year Ended Jun 30, 2006, p.27

Ashland Fiber Network
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008; 2007; 2006

	<u>2008¹</u>	<u>2007²</u>	<u>2006³</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$2,652,248	\$2,189,348	\$2,806,556
Payments to Suppliers	(1,987,117)	(1,105,791)	(1,870,485)
Payments to Employees	(625,796)	(657,813)	(636,804)
Net cash from operating activities	<u>39,335</u>	<u>425,744</u>	<u>297,267</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Proceeds from (payment of) interfund and other loans			
Transfers	-	-	500,000
Taxes Collected	<u>250</u>	<u>25,569</u>	<u>92,685</u>
Net Cash from noncapital financing activities	<u>250</u>	<u>25,569</u>	<u>592,685</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(235,053)	(5,750)	
Proceeds from issuance of debt			
Proceeds from intergovernmental income			
Principal paid on bonds, contracts and notes			
Interest Paid on debt	-	-	(1,212,392)
Tax equivalents	-	-	(90,037)
Net cash from capital and related financing activities	<u>(235,053)</u>	<u>(5,750)</u>	<u>(1,302,429)</u>
Interest from investments and Other income	<u>29,251</u>	<u>25,598</u>	<u>6,423</u>
Net increase (decrease) in cash and investments	(166,217)	471,161	(406,054)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 2007; 2006; 2005	838,962	367,801	773,855
CASH AND CASH EQUIVALENTS, END OF YEAR 2008; 2007; 2006	<u>\$672,745</u> <u>20084</u>	<u>\$838,962</u> <u>20075</u>	<u>\$367,801</u> <u>20066</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	<u>\$(939,617)</u>	<u>\$(593,989)</u>	<u>\$(543,688)</u>
Depreciation and Amortization Expense	<u>937,276</u>	<u>713,265</u>	<u>783,148</u>
Change in assets and liabilities:			
(Increase) Decrease in:			
Receivables	(64,521)	105,930	(15,875)
Inventories	-	590	(590)
Deferred Charges	<u>109,969</u>	<u>256,202</u>	<u>83,796</u>
(Increase) Decrease in:			
Accounts Payable	(5,712)	(45,723)	(18,002)
Other Liabilities	<u>1,940</u>	<u>(10,531)</u>	<u>8,478</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$39,335</u>	<u>\$425,744</u>	<u>\$297,267</u>

¹ City of Ashland Comprehensive Annual Financial Report For Year Ended June 30, 2008, p. 28

² City of Ashland Comprehensive Annual Financial Report For Year Ended June 30, 2007, p. 28

³ City of Ashland Comprehensive Annual Financial Report For Year Ended June 30, 2006, p. 28

Ashland Fiber Network
OPERATING INDICATORS BY FUNCTION/PROGRAM
YEARS 2008, 2007, 2006¹

Telecommunications	2008	2007	2006
Cable TV	-	-*	3,095
Cable Modem	4,153	3,988	3,823

*Cable TV outsourced

¹ See, City of Ashland Comprehensive Annual Financial Report For Year Ended June 30, 2008, p.134

PENNSYLVANIA:**KUTZTOWN, PA-HOMETOWN UTILICOM
STATEMENT OF NET ASSETS
FOR THE YEARS ENDED 2008; 2007; 2006**

	2008 ¹	2007 ²	2006 ³
ASSETS			
Current Assets			
Cash and Cash Equivalents		\$45,615	\$40,987
Accounts Receivable, (NET)		-	-
Inventories		-	-
Prepaid Expenses		5,989	6,598
Total Current Assets		<u>51,604</u>	<u>47,585</u>
Noncurrent Assets			
Capital Assets, net of accumulated depreciation		4,775,488	5,190,067
Due from other funds		-	-
Loan Receivable KMA		-	-
Unamortized bond costs		-	-
Total Noncurrent Assets		<u>4,775,488</u>	<u>5,190,067</u>
TOTAL ASSETS		<u>\$4,827,092</u>	<u>\$5,237,652</u>
LIABILITIES			
Current Liabilities			
Accounts Payable		\$32,369	\$26,489
Accrued Expenses		50,853	44,309
Customer Deposits		4,800	4,800
Deferred Revenues		<u>58,147</u>	<u>53,454</u>
Total Current Liabilities		<u>146,169</u>	<u>129,052</u>
Noncurrent Liabilities			
Long-term debt		<u>2,020,000</u>	2,055,000
TOTAL LIABILITIES		<u>2,166,169</u>	<u>2,184,052</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt		2,755,488	3,135,067
Reserved for capital projects and reserves		-	-
Unrestricted		<u>(94,565)</u>	<u>(81,467)</u>
TOTAL NET ASSETS		<u>\$2,660,923</u>	<u>\$3,053,600</u>

¹² Borough of Kutztown Annual Audit and Financial Report December 31, 2007, pp. 17-18³ Borough of Kutztown Annual Audit and Financial Report December 31, 2006, pp. 17-18

KUTZTOWN, PA-HOMETOWN UTILICOM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008; 2007; 2006

	<u>2008¹</u>	<u>2007²</u>	<u>2006³</u>
OPERATING RECEIPTS			
Charges for Services	\$	\$678,004	\$616,794
Interfund Charges		73,262	58,458
Tapping Fees		-	-
Intergovernmental Grants		-	-
Management fees		-	-
Miscellaneous		39,028	4,869
Rent		<u>50,401</u>	<u>48,624</u>
Total		<u>840,695</u>	<u>728,745</u>
OPERATING DISBURSEMENTS			
Salaries		223,666	212,454
Benefits		103,025	99,827
Advertising/Public relations		5,981	7,024
Contracted Services		22,550	53,669
Depreciation		438,933	436,732
Dues and subscriptions			34
Power Purchases		-	-
Engineering services		-	-
Program content purchased		291,430	254,496
Fuel		-	-
Landfill fees		-	-
Inflow & infiltration testing			-
Telemetry expense		-	-
Insurance		14,822	15,357
Legal & accounting services		20,608	16,490
Office expenses		23,526	4,674
Protection		2,980	9,580
Rent		29,170	45,978
Repairs and maintenance		571	42,391
Supplies		9,824	2,562
Telephone		3,474	1,075
Training			3,195
Treatment & transmission		-	-
Uniforms			1,241
Vehicle operating expense (includes salary)		3,050	2,525
Electricity		10,704	10,359
Water services		-	-
Total		<u>1,204,314</u>	<u>1,219,663</u>
EXCESS OPERATING REVENUES OVER OPERATING EXPENSES		<u>(363,619)</u>	<u>(490,918)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest Income		2,360	1,875
Interest Expense		(132,686)	(134,388)
Minor Capital Expenditures		(148,732)	(58,742)
NONOPERATING REVENUES LESS NONOPERATING EXPENSES		<u>(279,058)</u>	<u>(191,255)</u>
TRANSFERS			
Transfers In		250,000	305,000
Transfers Out		-	-
Net Transfers		<u>250,000</u>	<u>305,000</u>
NET NONOPERATING REVENUES (EXPENSES)		<u>(29,058)</u>	<u>113,745</u>
EXCESS REVENUES OVER EXPENSES		<u>(392,677)</u>	<u>(377,173)</u>
NET ASSETS (DEFICITS), JANUARY 1, 2007;2006;2005		3,053,600	102,594
Restatement of beginning balance for GASB 34 adoption			3,328,179
NET ASSETS, JUNE 30, 2008;2007;2006	\$	<u>\$2,660,923</u>	<u>\$3,053,600</u>

¹

² Borough of Kutztown Annual Audit and Financial Report December 31, 2007, pp. 19-20

³ Borough of Kutztown Annual Audit and Financial Report December 31, 2007, pp. 19-20

KUTZTOWN, PA-HOMETOWN UTILICOM
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008; 2007; 2006

	<u>2008¹</u>	<u>2007²</u>	<u>2006³</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers	\$	\$682,697	\$675,252
Receipts from Interfund services		73,262	
Payments to Employees		(320,147)	(312,281)
Payments for resale items		(291,430)	(108,408)
Payments to suppliers		(140,771)	(798,974)
Receipts from other sources		<u>89,429</u>	<u>53,493</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		<u>93,040</u>	<u>(490,918)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal paid on Long-Term Borrowings		(35,000)	(35,000)
Interest paid on Long-Term Borrowings		<u>(132,686)</u>	<u>(134,388)</u>
NET CASH USED FOR FINANCING ACTIVITIES		<u>(167,686)</u>	<u>(169,388)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Income		2,360	1,875
Principal Repayment-KMA		=	=
Capital Expenditures		(173,086)	(58,742)
Transfers, net		<u>250,000</u>	<u>305,000</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES		<u>79,274</u>	<u>248,133</u>
Net Increase (Decrease) in Cash and Cash Equivalents		4,628	(412,173)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 2007; 2006; 2005		<u>40,987</u>	<u>453,160</u>
CASH AND CASH EQUIVALENTS, END OF YEAR 2008; 2007; 2006	<u>\$</u>	<u>\$45,615</u>	<u>\$40,987</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Provided by Operating Activities			
Operating Income		\$(363,619)	\$(490,918)
Depreciation and Amortization		<u>438,933</u>	<u>436,732</u>
(Increase) Decrease in Accounts Receivable		=	
(Increase) Decrease in other current assets		<u>609</u>	
(Increase) Decrease in other noncurrent assets		=	
(Increase) Decrease in other current liabilities		<u>17,117</u>	
Net cash provided by operations	<u>\$</u>	<u>\$93,040</u>	<u>\$(54,186)</u>

¹

² Borough of Kutztown Annual Audit and Financial Report December 31, 2007, pp. 21

³ Borough of Kutztown Annual Audit and Financial Report December 31, 2006, pp. 21

**UTAH-UTOPIA
STATEMENT OF NET ASSETS
FOR THE YEARS ENDED 2008; 2007; 2006**

	2008 ¹	2007 ²	2006 ³
ASSETS			
Current Assets:			
Cash	\$255,054	\$351,241	\$53,087
Restricted investments	22,504,367	5,269,997	6,438,848
Receivables:			
Trade receivables, net	1,541,132	1,437,565	
Miscellaneous receivables		246,807	758,204
Interest receivable-restricted investments	<u>70,329</u>	<u>28,926</u>	<u>28,612</u>
Total Receivables	1,611,461	1,713,298	786,816
Inventory	7,051,881		
Prepaid expenses	2,213,289	347,094	<u>63,951</u>
Deferred charges	<u>72,783</u>	<u>274,970</u>	
Total Current Assets	<u>33,708,835</u>	<u>7,956,600</u>	<u>7,342,702</u>
Noncurrent Assets:			
Capital Assets:			
Construction in progress	18,575,158	17,297,058	10,081,326
Property and equipment, net			
Fiber optic network	68,959,913	62,185,723	59,430,014
Office Furniture and equipment	253,231	365,583	<u>13,036</u>
Vehicles	<u>132,977</u>	<u>221,628</u>	
Total Property and Equipment, net	<u>69,346,121</u>	<u>62,772,934</u>	<u>59,443,050</u>
Total Capital Assets	<u>87,921,279</u>	<u>80,069,992</u>	<u>69,524,376</u>
Other Assets:			
Restricted investments	12,536,865	1,608,382	506,043
Deposits	22,686	175,227	164,500
Deferred charges	<u>2,128,811</u>	<u>2,756,715</u>	<u>1,437,109</u>
Swap asset		<u>320,168</u>	
Total Other Assets	<u>14,688,362</u>	<u>4,860,992</u>	<u>2,107,652</u>
Total Assets	<u>\$136,318,476</u>	<u>\$92,887,084</u>	<u>\$78,974,730</u>
LIABILITIES			
Current Liabilities:			
Accounts payable from restricted assets	\$1,539,352	\$3,827,977	\$6,143,286
Accrued Liabilities	181,354	51,533	
Compensated absences	8,362	32,667	26,060
Interest Payable from restricted assets	889,821	555,859	441,376
Other Liabilities payable from restricted assets		2,951,787	3,155,785
Notes Payable		523,723	287,881
Capital leases payable	<u>122,989</u>	22,501	<u>1,127,056</u>
Revenue bonds payable		<u>1,700,000</u>	
Total Current Liabilities	<u>2,741,878</u>	<u>9,666,047</u>	<u>11,181,444</u>
Noncurrent Liabilities:			
Compensated absences	10,949	43,302	34,545
Notes payable	135,750	651,792	1,519,804
Capital leases payable	627,808	344,070	207,314
Revenue bonds payable	185,000,000	112,600,000	<u>84,456,585</u>
Swaps liability	<u>23,012,938</u>	<u>7,515,802</u>	
Total Liabilities	<u>211,529,323</u>	<u>130,821,013</u>	<u>97,399,692</u>
Net Assets:			
Invested in capital assets, net of related debt	(15,797,814)	(10,395,179)	(3,155,785)
Unrestricted deficit	<u>(59,413,033)</u>	<u>(27,538,750)</u>	<u>(15,269,177)</u>
Total Net Assets	<u>(75,210,847)</u>	<u>(37,933,929)</u>	<u>(18,424,962)</u>
Total Liabilities and Net Assets	<u>\$136,318,476</u>	<u>\$92,887,084</u>	<u>\$78,974,730</u>

¹Utah Telecommunication Open Infrastructure Agency Financial Statements, June 30, 2008, pp. 6-7

²Utah Telecommunication Open Infrastructure Agency Financial Statements, June 30, 2007, pp. 6-7

³Utah Telecommunication Open Infrastructure Agency Financial Statements, June 30, 2006, pp. 6-7

UTAH-UTOPIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008; 2007; 2006

	<u>2008¹</u>	<u>2007²</u>	<u>2006³</u>
OPERATING REVENUES	\$3,201,987		
Customer access fees		\$2,101,444	\$1,445,375
Service provider fees		<u>217,163</u>	<u>105,051</u>
Total Operating Revenues		<u>2,318,607</u>	<u>1,550,426</u>
OPERATING EXPENSES:			
Payroll	650,010	853,832	648,547
Material and Supplies	375,180	137,963	148,914
Professional services	485,017	464,448	736,770
Network	3,163,284	4,461,749	4,630,652
Depreciation	<u>5,402,635</u>	<u>7,239,393</u>	<u>2,643,074</u>
Total Operating Expense	<u>10,076,126</u>	<u>13,157,385</u>	8,807,957
Operating Loss	<u>(6,874,139)</u>	<u>(10,838,778)</u>	<u>(7,257,531)</u>
Nonoperating Revenues (Expenses):			
Interest Income	405,788	761,557	922,583
Bond Interest and fees	(28,626,401)	(7,654,923)	(4,248,038)
Income from Smart Communities Conference, net			8,447
Miscellaneous income	980,854	246,807	
Miscellaneous expense	(2,192,395)		
Loss on disposal of capital assets	(970,625)		
Grant Revenue		<u>246,807</u>	
Other			<u>219,786</u>
Total Nonoperating Revenues (Expenses)	<u>(30,402,779)</u>	<u>(6,646,559)</u>	<u>(3,097,222)</u>
Change in Net Assets	(37,276,918)	(17,485,337)	(10,354,753)
Total Net Assets, Beginning of Year	(37,933,929)	(18,424,962)	(8,070,209)
Prior Period Adjustment		(2,023,630)	
Total Net Assets, End of Year	<u>\$(75,210,847)</u>	<u>\$(37,933,929)</u>	<u>\$(18,424,962)</u>

¹ Utah Telecommunication Open Infrastructure Agency Financial Statements, June 30, 2008, p. 8

² Utah Telecommunication Open Infrastructure Agency Financial Statements, June 30, 2007, p. 8

³ Utah Telecommunication Open Infrastructure Agency Financial Statements, June 30, 2006, p. 8

UTAH-UTOPIA
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008; 2007; 2006

	<u>2008¹</u>	<u>2007²</u>	<u>2006³</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers and users	\$3,345,227	\$1,639,246	\$1,075,577
Payments to Suppliers	(12,652,952)	(7,866,610)	(394,921)
Payments to Employees	(576,847)	(786,935)	(613,309)
Net cash used by operating activities	(9,884,572)	(7,014,299)	67,347
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of property and equipment	(21,197,640)	(17,327,831)	(39,440,245)
Proceeds from issuance of bonds payable	206,354,052	30,000,000	
Principal paid on bonds payable	(135,654,052)	(700,000)	
Principal Paid on notes payable	(523,723)	(662,809)	
Bond interest and fees	(9,299,966)	(6,994,504)	(4,473,071)
Cash paid for bond issuance costs	(2,666,211)	(1,310,375)	
Proceeds from issuance of capital lease payable	490,623		
Principal paid on capital leases payable	(106,397)	(1,127,056)	(288,298)
Settlement on contract	(250,000)		
Deposits on leases		(10,727)	(150,000)
Restricted cash-net increase	(28,162,853)	66,512	43,139,883
Cash contributions received from pledging members	440,167		
Cash received on swap transactions		4,618,000	
Net cash provided from capital and related financing activities	9,424,000	6,551,210	(1,211,731)
CASH FLOWS FROM INVESTING ACTIVITY:			
Interest income	364,385	761,243	1,015,235
Net cash provided by investing activity	364,385	761,243	1,015,235
Net Increase (Decrease) in Cash and Cash Equivalents	(96,187)	298,154	(129,149)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 2007; 2006; 2005	<u>351,241</u>	<u>53,087</u>	<u>182,236</u>
CASH AND CASH EQUIVALENTS, END OF YEAR 2008; 2007; 2006	<u>\$255,054</u>	<u>\$351,241</u>	<u>\$53,087</u>

¹ Utah Telecommunication Open Infrastructure Agency Financial Statements, June 30, 2008, p. 9

² Utah Telecommunication Open Infrastructure Agency Financial Statements, June 30, 2007, p. 9

³ Utah Telecommunication Open Infrastructure Agency Financial Statements, June 30, 2006, p. 9

**UTAH-UTOPIA
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008; 2007; 2006**

	<u>2008¹</u>	<u>2007²</u>	<u>2006³</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$(6,874,139)	\$(10,838,778)	\$(7,257,531)
Adjustments to Reconcile Operating Income (Loss) To Net Cash Provided by (Used for) Operating Activities:			
Misc. Income			228,233
Depreciation Expense	5,402,635	7,239,393	2,643,074
(Increase) Decrease in current assets:			
Accounts receivable	143,240	(679,361)	(659,402)
Inventory	(1,525,405)		
Prepaid Expense	(1,863,654)	(283,143)	46,503
(Increase) Decrease in Current Liabilities:			
Accounts payable	(2,288,625)	(2,315,309)	9,261,800
Accrued Liabilities	73,163	66,897	26,732
Liabilities payable from restricted assets	(2,951,787)	(203,998)	(4,178,382)
Deferred Revenue			(43,680)
Net Cash Used by Operating Activities	\$(9,884,572)	\$(7,014,299)	\$67,347

¹ Utah Telecommunication Open Infrastructure Agency Financial Statements, June 30, 2008, p. 10

² Utah Telecommunication Open Infrastructure Agency Financial Statements, June 30, 2007, p. 10

³ Utah Telecommunication Open Infrastructure Agency Financial Statements, June 30, 2006, p. 10

**UTAH-UTOPIA
MARKET PENETRATION
2008, 2007, 2006**

	2008¹	2007²	2006³
Total # of Addresses Passed	48,800	47,000	43,450
Total # of Addresses Passed that are Marketable	42,800	37,160	23,805
Total # of Subscribers:	7,209	6,161	4,844
Data (%)	38	35	25
Data and Voice (%)	31	18	40
Data, Voice and Video (%)	14	17	21
Data and Video (%)	17	30	14
Captured Market (%) (based on Marketable Addresses)	17	17	20

¹ Utah Telecommunication Open Infrastructure Agency Financial Statement June 30, 2008, p.2

² Utah Telecommunication Open Infrastructure Agency Financial Statement June 30, 2007, p.2

³ Utah Telecommunication Open Infrastructure Agency Financial Statement June 30, 2006, p.2

STATEMENT OF NET ASSETS
FOR THE YEARS ENDED 2008; 2007; 2006

	2008 ¹	2007 ²	2006 ³
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$2,932,433	\$1,145,477	\$2,484,403
Accounts Receivable, (NET)	1,149,263	422,343	298,008
Due from Other Funds	166,111	74,694	51,778
Due from Other Governments	582,989	149,325	38,744
Inventories	982,547	1,087,640	1,109,420
Prepays	194,381	226,548	255,102
Residential Lots for Sale	-	-	-
Other Current Assets	<u>18,741</u>	<u>8,682</u>	<u>18,114</u>
Total Current Assets	<u>6,026,465</u>	<u>3,114,709</u>	<u>4,255,569</u>
Noncurrent Assets			
Restricted Cash and Cash Equivalents	79,325	58,225	51,775
Certificates of Deposit-Long-term	3,245,419	3,314,722	-
Capital Assets, Net	50,078,280	44,137,658	45,130,666
Customer Notes Receivable, Less Current Portion	-	-	-
Prepaid	389,813	480,877	595,201
Bond Issuance Costs, Net	<u>731,229</u>	<u>728,100</u>	<u>759,699</u>
Total Other Noncurrent Assets	<u>54,524,066</u>	<u>48,719,582</u>	<u>46,828,909</u>
TOTAL ASSETS	<u>60,550,531</u>	<u>51,834,291</u>	<u>51,084,478</u>
LIABILITIES			
Current Liabilities			
Accounts Payable and Accrued Liabilities	2,384,194	1,248,131	958,555
Accrued Interest	549,497	556,753	563,445
Accrued Payroll and Related Deductions	195,862	75,233	52,616
Due to Other Governmental Units	25,644	25,692	-
Due to Other Funds	927,210	817,569	197,981
Customer Security Deposits	79,325	58,225	51,775
Deferred Revenue	776,258	197,133	165,442
Potential Development Credits	-	-	-
Bonds and Leases Payable	761,729	751,729	736,729
Notes Payable	30,753	-	-
Compensated Absences Payable	117,092	83,811	77,277
Total Current Liabilities	<u>5,847,564</u>	<u>3,814,276</u>	<u>2,803,820</u>
Long-term Liabilities			
Termination Benefits Payable	-	-	-
Deferred Revenue	821,936	937,880	1,053,824
Advances from Other Funds	-	-	23,393,517
Compensated Absences Payable	165,961	164,953	113,549
Notes Payable	951,955	-	-
Bonds and Leases Payable, Net of Unamortized			
Deferred Amounts	26,100,952	26,327,183	27,078,911
Total Long-term Liabilities	<u>28,040,804</u>	<u>27,430,016</u>	<u>51,639,801</u>
TOTAL LIABILITIES	<u>33,888,368</u>	<u>31,244,292</u>	<u>54,443,621</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	23,946,828	17,786,846	15,074,725
Restricted for Debt Service	-	-	-
Unrestricted	<u>2,715,335</u>	<u>2,803,153</u>	<u>(18,433, 868)</u>
TOTAL NET ASSETS	<u>\$26,662,163</u>	<u>\$20,589,999</u>	<u>\$(3,359,143)</u>

¹City of Bristol, Virginia Financial Statements With Independent Auditors' Report For the Fiscal Year Ended June 30, 2008, pp. 24-26²City of Bristol, Virginia Financial Statements With Independent Auditors' Report Year Ended June 30, 2007, pp.25-27³City of Bristol, Virginia Comprehensive Annual Financial Report Year Ended June 30, 2006, p. 26

Bristol Virginia Utilities-OptiNet
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008; 2007; 2006

	<u>2008¹</u>	<u>2007²</u>	<u>2006³</u>
OPERATING REVENUES			
Charges for Services, Net	\$13,197,278	\$10,663,207	\$8,543,762
Sales	-	-	-
Rent from Property	38,400	36,242	35,300
Meter Set Charges, Customer forfeited			
Discounts and Penalties	55,275	63,114	34,810
Connections and Transfers	-	-	-
Gain on Sale of Residential Lots	-	-	-
Other Revenue	<u>1,234,359</u>	<u>210,611</u>	<u>19,413</u>
TOTAL OPERATING REVENUES	<u>14,525,312</u>	<u>10,973,174</u>	<u>8,633,285</u>
OPERATING EXPENSES			
Power and Pumping	-	-	-
Purification and Collection System	-	-	-
Transmission and Distribution	-	-	-
Telephone Broadband and CATV	7,155,429	5,299,751	4,497,437
Billing and Collection	786,494	772,853	921,733
Sales Promotion	-	-	-
Purchase of Electricity	-	-	-
Landfill Closure and Post Closure Care	-	-	-
Administrative and General	1,705,427	1,490,112	981,885
Depreciation	3,402,088	3,072,622	2,296,135
Amortization	<u>25,642</u>	<u>24,871</u>	<u>24,871</u>
TOTAL OPERATING EXPENSES	<u>13,075,080</u>	<u>10,660,209</u>	<u>8,722,061</u>
Operating Income (Loss)	<u>1,450,232</u>	<u>312,965</u>	<u>(88,776)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest Income	125,474	203,907	101,937
Interest Expense	(1,152,695)	(1,146,081)	(2,009,966)
Amortization of Bond Costs	-	-	-
Gain (Loss) on Disposal of Assets	<u>385</u>	<u>4,404</u>	<u>3,625</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(1,026,836)</u>	<u>(937,770)</u>	<u>(1,904,404)</u>
Net Income (Loss) Before Operating			
Transfers and Capital Contributions	<u>423,396</u>	<u>(624,805)</u>	<u>(1,993,180)</u>
TRANSFERS IN (OUT)	-	23,393,518	-
CAPITAL CONTRIBUTIONS AND GRANTS	<u>5,648,768</u>	<u>1,180,429</u>	<u>7,263,779</u>
Change in Net Assets	6,072,164	23,949,142	5,270,599
NET ASSETS (DEFICITS), JULY 1, 2007;2006;2005	20,589,999	(3,359,143)	-
Prior Period Adjustment	-	-	-
NET ASSETS (DEFICITS), JULY 1, 2007, RESTATED	20,589,999	-	(8,629,742)
NET ASSETS, JUNE 30, 2008;2007;2006	<u>\$26,662,163</u>	<u>\$20,589,999</u>	<u>\$(3,359,143)</u>

¹ City of Bristol, Virginia Financial Statements With Independent Auditors' Report For the Fiscal Year Ended June 30, 2008, pp. 27-28

² City of Bristol, Virginia Financial Statements With Independent Auditors' Report Year Ended June 30, 2007, pp. 28-29

³ City of Bristol, Virginia Comprehensive Annual Financial Report Year Ended June 30, 2006, pp. 28-29

Bristol Virginia Utilities-OptiNet
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008; 2007; 2006

	<u>2008¹</u>	<u>2007²</u>	<u>2006³</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$13,290,953	\$10,762,563	\$8,613,872
Payments to Suppliers	(6,819,788)	(6,327,658)	(5,165,997)
Payments to Employees	(2,827,562)	(1,235,058)	(1,235,058)
Interfund Receipts (Payments)	18,225	596,673	1,083,846
Other Receipts (Payments)	<u>2,059,997</u>	<u>461,113</u>	<u>(385,686)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>5,721,825</u>	<u>4,257,633</u>	<u>2,910,977</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Net Proceeds from Bond Debt	535,500	-	-
Purchase of Capital Assets	(8,509,824)	(5,075,210)	(9,674,783)
Proceeds from Sale of Property and Equipment	-	-	-
Principal Paid on Capital Debt	(762,292)	(730,000)	-
Interest Paid on Capital Debt	(1,152,697)	(1,146,081)	(1,882,935)
Interfund Loan Receipts	-	-	3,721,287
Capital Contributions and Grants	5,816,267	1,180,429	7,263,779
Other Payments	<u>(35,500)</u>	<u>---</u>	<u>---</u>
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(4,108,546)</u>	<u>(5,770,862)</u>	<u>(572,652)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Sales and Maturities of Investments	69,303	-	-
Purchase of Investments	-	(23,154)	(627,919)
Interest Received	<u>125,474</u>	<u>203,907</u>	<u>101,937</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>194,777</u>	<u>180,753</u>	<u>(525,982)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,808,056	(1,332,476)	1,812,343
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 2007; 2006; 2005	<u>1,203,702</u>	<u>2,536,178</u>	<u>723,835</u>
CASH AND CASH EQUIVALENTS, END OF YEAR 2008; 2007; 2006	<u>\$3,011,758</u>	<u>\$1,203,702</u>	<u>\$2,536,178</u>

¹ City of Bristol, Virginia Financial Statements With Independent Auditors' Report For the Fiscal Year Ended June 30, 2008, pp. 29-30

² City of Bristol, Virginia Financial Statements With Independent Auditors' Report Year Ended June 30, 2007, pp. 30-31

³ City of Bristol, Virginia Comprehensive Annual Financial Report Year Ended June 30, 2006, pp. 30-31

Bristol Virginia Utilities- OptiNet
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008; 2007; 2006

	<u>2008¹</u>	<u>2007²</u>	<u>2006³</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$1,450,232	\$312,965	\$(88,776)
Adjustments to Reconcile Operating Income (Loss)			
To Net Cash Provided by (Used for) Operating Activities:			
Depreciation and Amortization Expense	3,427,730	3,097,493	2,321,006
(Gain) Loss on Sale of Property	-	-	-
Bad Debt Expense	73,161	56,219	152,179
(Increase) Decrease in Receivables	(800,081)	(180,554)	(216,005)
(Increase) Decrease in Inventories	105,093	21,780	(328,917)
(Increase) Decrease in Prepaid Items	123,231	142,878	132,908
(Increase) Decrease in Other Assets	(10,059)	9,432	(18,114)
(Increase) Decrease in Due from Other Funds	(91,416)	(22,916)	92,666
(Increase) Decrease in Due from Other Governmental Units	(433,664)	(110,581)	(38,744)
(Increase) Decrease in Accounts Payable	1,352,229	340,822	(777*)
(Increase) Decrease in Accrued Liabilities	(68,505)	-	-
(Increase) Decrease in Accrued Payroll and Related Deductions	-	22,617	(9,432)
(Increase) Decrease in Retirement Benefits Payable	-	-	-
(Increase) Decrease in Deposits	21,100	6,450	(6,633)
(Increase) Decrease in Due to Other Funds	109,641	619,589	991,180
(Increase) Decrease in Due to Other Governmental Units	(48)	25,692	-
(Increase) Decrease in Deferred Revenue	463,181	(84,253)	(71,564)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>5,721,825</u>	<u>4,257,633</u>	<u>2,910,977</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Asset Acquisitions Financed Through Debt	<u>\$1,000,000</u>	<u>\$23,393,518</u>	<u>\$160,727</u>

* This number represents combined accounts payable and accrued liabilities.

¹ City of Bristol, Virginia Financial Statements With Independent Auditors' Report For the Fiscal Year Ended June 30, 2008, p. 31

² City of Bristol, Virginia Financial Statements With Independent Auditors' Report Year Ended June 30, 2007, p.32

³ City of Bristol, Virginia Comprehensive Annual Financial Report Year Ended June 30, 2006, p.30

**Bristol Virginia Utilities-OptiNet
Interfund Receivables, Payable and Transfers
For the Year Ended 2008¹**

Due To/From other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric	OptiNet	\$927,210
OptiNet	Electric	157,376
OptiNet	Water	4,168
OptiNet	Wastewater	4,567

**Interfund Receivables, Payable and Transfers
For the Year Ended 2007²**

Due To/From other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	OptiNet	\$60,559
Electric	OptiNet	736,249
Wastewater	OptiNet	20,761
OptiNet	Electric	73,379
OptiNet	Water	642
OptiNet	Wastewater	673

**Interfund Receivables, Payable and Transfers
For the Year Ended 2006³**

Due To/From other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	OptiNet	\$9,118
OptiNet	Water	830
OptiNet	Wastewater	911
OptiNet	Electric	50,037
Electric	OptiNet	188,863

Advances To/From other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	OptiNet	\$23,393,517

**Bristol Virginia Utilities-OptiNet
OPERATING INDICATORS BY FUNCTION (UNAUDITED)⁴**

OptiNet	2008	2007	2006	2005
Number of Customer Accounts	8,526	7,782	7,509	*
Plant Fiber Miles	372	372	372	*

*Comparable information was not available for prior years

¹ See, City of Bristol, Virginia Financial Statements With Independent Auditors' Report, For Year Ended June 30, 2008, p.52

² See, City of Bristol, Virginia Financial Statements With Independent Auditors' Report Year Ended June 30, 2007, p.54

³ See, City of Bristol, Virginia Comprehensive Annual Financial Report Year Ended June 30, 2006, p.45

⁴ City of Bristol, Virginia Financial Statements With Independent Auditors' Report, For Year Ended June 30, 2008, p. 94